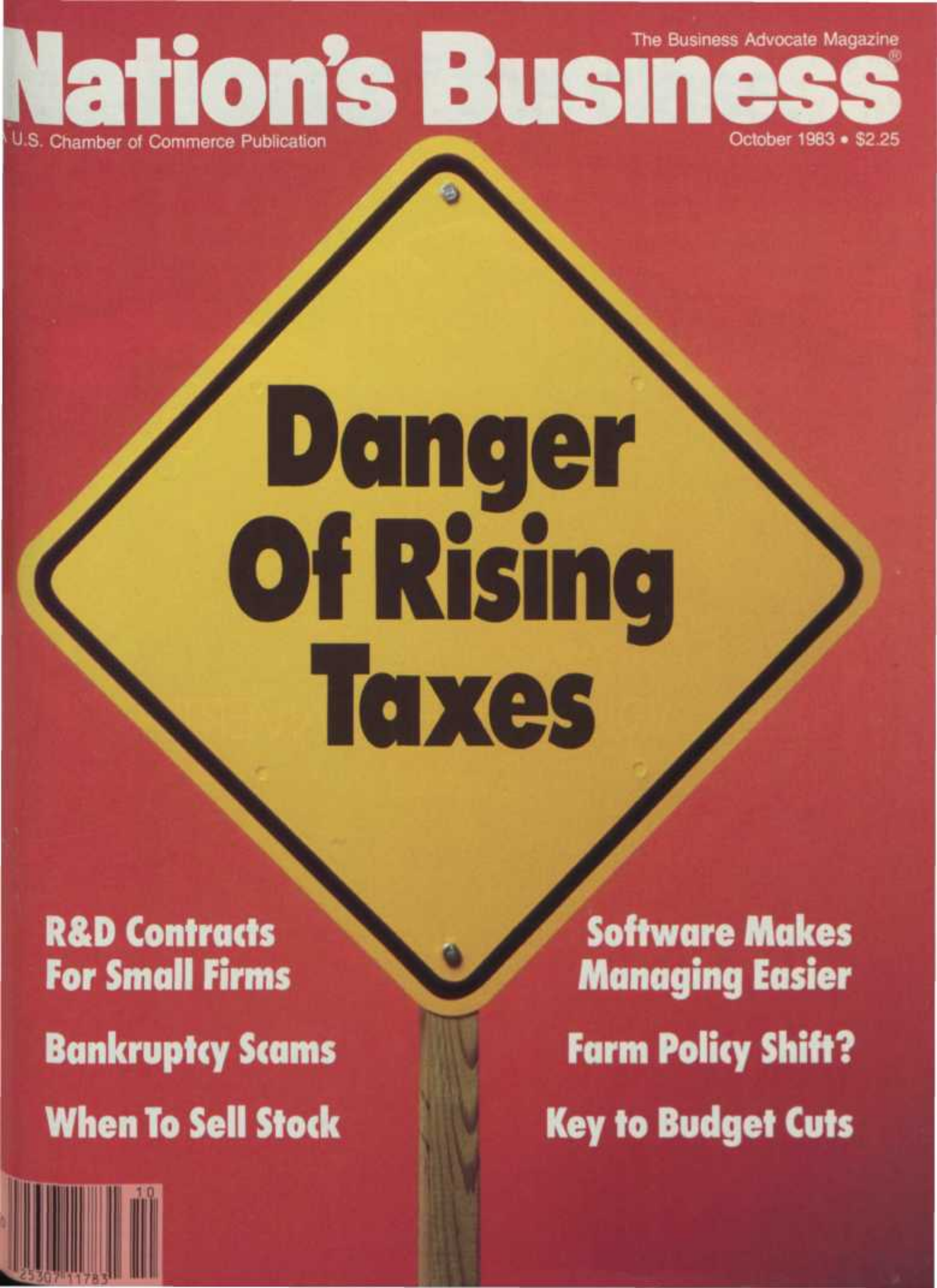
The Business Advocate Magazine

Nation's Business

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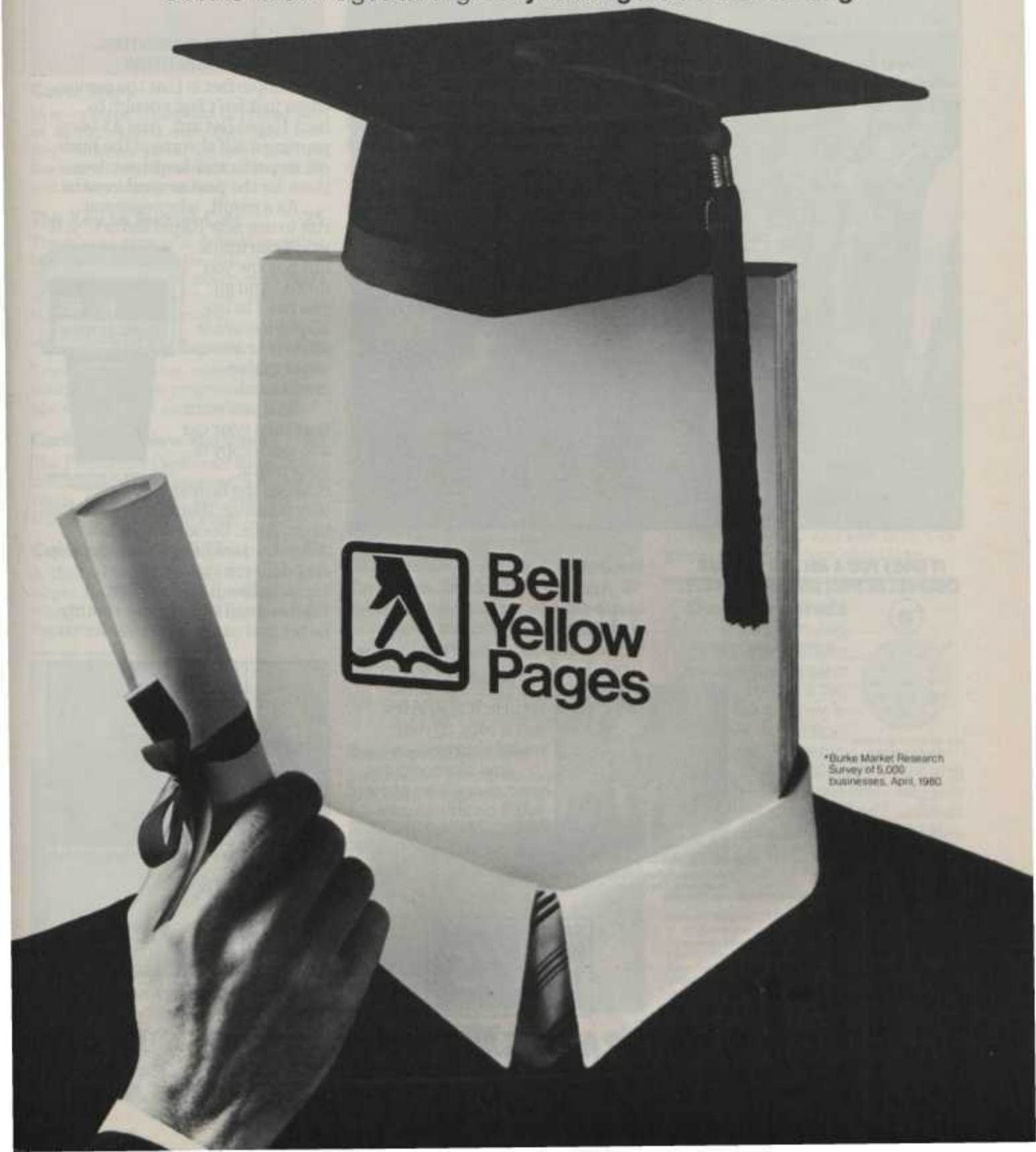
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Nation's Business®

October 1983
Vol. 71, No. 10

Cover Story 22
In one corner: champions of raising taxes to cut deficits and, they say, hold down interest rates. In the other: defenders of relying on economic growth and money supply control.

The Key to Budget Cuts 25
The fastest growth in federal spending has been for entitlement programs. Ronald Reagan's efforts to curb these open-ended expenditures will loom large in the 1984 elections.

"Secret" Aid for Exports 28
True or false? This country's government offers more programs to encourage exports than Japan's does.

Caribbean's New Horizons 30
The President's Caribbean Basin Initiative, approved by Congress, has opened vistas of commerce and industry for U.S. enterprises of all sizes.

Contracts for Small Firms 34
A 1982 law assures small business of a larger share of federal spending on research and development. Here is how the law can be put to use.

PHOTO: GARY KEFFER



Burger's Plan for Prisons 38
Chief Justice Warren Burger writes that tax money can be saved and criminals' lives salvaged by training prisoners in work skills and letting business give them jobs behind bars.

PHOTO: TED WASHINGTON



Planned Towns Go Awry 42
Of 13 communities started under a federal program, only The Woodlands (photo) was a complete success. Why?

Farm Policy May Change 46
Agriculture today: oversupply, scarcity and soaring government costs.

Lessons of Leadership 50
Edward Donley's industrial company is meeting the high-tech challenge.

PHOTO: DAVID FRAZIER



Turmoil in Trucking 57
Recession, higher taxes and added competition left an industry reeling. Now it is fighting back.

Choosing Up Sides 62
Election selections are being made early by business and labor unions.

Bankruptcy Swindles 64
Some people go into business to get out of it, taking your money along.

PHOTO: DAVID VALDEZ



Easier Managing 66
Computer software lets you see a "snapshot" of all your firm's operations and make better use of your time.

When To Sell a Stock 70
It may be the toughest part of shaping a sound investment policy. Here are rules that can help you.

PHOTO: DAVID VALDEZ



Strategies for Success 74
Enterprise and its rewards in health care, beauty care, building care and (above) care of industrial controls.

Congressional Alert 79
Major legislative issues that could affect your business. And how to let Congress know your views about them.

Departments

James J. Kilpatrick	4
Washington Letter	7
Letters	9
For Your Tax File	12
Outlook	14
Where I Stand	72
Classified	77
To Your Health	78
Editorials	80

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BY JAMES J. KILPATRICK

The High Cost of Health

NOT LONG AGO, finding the August doldrums hanging heavy on my hands, I went to the University of Virginia Hospital in scenic Charlottesville and there inquired about having a little knife and fork work done on an ailing heart. The surgeons were agreeable. They invited me for dinner, and three coronary bypasses and one cloverleaf later, they sent me forth with hearty farewells all around. During this sojourn I had been in their pleasant company for 10 days. The bill, exclusive of doctors' fees, was $17,428.02. I inquired jovially what the 2 cents was for. They said, heh-heh-heh, it was for the drinking straw I did not use on the skimmed milk I would not drink. Doctors are great kidders.

The soaring costs of hospital care are nothing to kid about. This was my first operation; except for a couple of long ago one-night stands, this was my first stay in a hospital. I learned a couple of things, and a bit broodily I pass them along. What I am brooding about is the pessimistic thought that unless some dramatic and ingenious mechanism can be found for controlling hospital costs, the bill for health care in the United States will soon go out of sight. By 1993, according to one estimate, that bill will exceed $1 trillion.



Medical insurance adds $600 to the price of a new car.

I will give you a patient's eye view of the matter. Once a patient is admitted to one of these antiseptic garages, he has absolutely no say-so over the repair work that is done. All the patient wants is to get the business over with. Cost is the last thing on his mind. He wants everything that might possibly contribute toward the success of whatever it is that he is in for.

I looked over the bill they sent me. It might have been written in cuneiform by the scribes of Ugarit. For example: "82803CL LAB IABG 8-838 . . . $16.75." Another interesting entry: "86068BL BNK MATCH4 8-263X 4 . . . $72.50." The cost of the semiprivate room I understood—$400 a night—but most of the rest was beyond translation. Did anyone ask me if I wanted a LAB CBCPLT at $15.25? Would I like an IGLUC? A couple of ILYTEs at $17.75 each? Bless your soul, if my doctors wanted these things for me, I wanted them too. After a $500 deductible, dear old New York Life's major medical plan would pay the rest. No hair off my chest. Bring on the needle-bearers! Just get me out of here alive.

The explosive growth of medical technology accounts for probably one third to half of the dismaying rise in hospital costs. These marvelous diagnostic procedures cost a fortune, both in capital investment and in the costs of labor to put them in use. Another big reason lies in the changing nature of patient populations: Hospitals are getting more patients in their 60s and 70s. The most significant factor is the factor of human nature: The suffering patient, having paid insurance premiums for years (or had them paid for him), now wants a little of his own back; he wants the best a hospital can provide, and the devil and Blue Cross take the cost. The physician has no reason to economize: The more tests he orders, the better his defense against a potential suit for malpractice; and besides, the more tests he orders, the better able he is to treat his patient. One of the tests done on me involved the spraying of a photo-sensitive dye into my heart; the films told the surgeons exactly what they needed to know, but the test cost $910 exclusive of the doctors' fees.

For the past 20 years, more or less, hospital costs have been rising 12 to 14 percent annually. This year's national bill for health services is estimated at $362 billion, more than double what we will spend on national defense. Much of that bill is paid through taxes for such programs as Medicaid and Medicare. The rest is absorbed through the economy generally, mostly in group health insurance financed by employers and passed on by them in the price of their products. The Chrysler Corporation, for example, pays $373 million a year in such insurance; the bill adds $600 to the cost of every car the company produces.

It is all very well to assert rhetorically that health costs "cannot" or "must not" be permitted to rise uncontrollably. Putting a cap on health care is a fearfully difficult task. Starting this month, the government will reimburse hospitals on a new basis predicated upon 467 specific diagnoses. If a hospital can provide treatment at less than the reimbursement, the hospital can pocket the profit. If the hospital's costs exceed the reimbursement, the hospital must absorb the loss.

Perhaps the government's new approach will help. Let us hope so, for society has other vital bills to pay—for education, for cleaning up the environment, for maintaining national defense. Health care is important, of course, but we can't let it become the tail that wags the dog. □

My August column dealt with a study of "public interest groups" by social statisticians S. Robert Lichter and Stanley Rothman. They erroneously listed Common Cause among organizations responding to the survey; I passed the error along. Common Cause did not participate. J.J.K.

A MAN WHO WORKED 14 YEARS AT IBM RAVES ABOUT THE BURROUGHS B20.



CARL H. JANZEN
President, Business Machine Group, Burroughs Corporation

A lot of people think that because IBM is bigger than Burroughs, that makes them better than Burroughs.

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WASHINGTON LETTER

▶ PRESIDENT REAGAN'S HAND has been strengthened, at least for present, on defense and foreign policy issues. In wake of Soviet destruction of Korean airliner, his critics in Congress are unable to develop viable position that both opposes administration's military stance and condemns Soviets. Early tipoff was House reversal of preattack decision against development of new nerve gas weapons. Many foes of military buildup, concerned about appearing soft on response to Soviets, now reluctantly back Reagan defense policies.

▶ DIPLOMATIC VICTORIES also more likely for President. Japan probably more amenable to higher spending for air and sea-lane defenses, as United States has been urging. Antinuclear movement here and abroad set back. Hard-line position in arms reduction talks with Soviet Union now easier to sell politically. Keep in mind: Capitol Hill dispute over U.S. role in Lebanon centers on whether Congress should have voice in approving Marine presence there; no one is talking seriously about withdrawal.

▶ BUT THERE ARE POTENTIAL PITFALLS for Reagan, also. Democrats try to up retaliation ante, calling for cancellation of new grain deal, other trade sanctions. Senate Minority Leader Robert Byrd urges consideration of total embargo on U.S. exports to Soviets. Reagan, now convinced that American companies and workers, not the embargo target, suffer most from such actions, has rebuffed such proposals.

▶ NEVERTHELESS, ADMINISTRATION faces increased opposition in efforts to win approval of Export Administration Act, without tough new limits on trade with Communist-bloc nations, and provide additional financing for International Monetary Fund. Some opponents claim IMF is too generous to countries hostile to United States. Advocates of IMF financing point out extent to which money is spent in this country, thus creating jobs.

▶ SIGN OF THE TIMES. Billboard at AFL-CIO headquarters in Washington announcing unemployment rate is taken down as recovery brings jobless back to work.

▶ SPENDING IMPASSE CONTINUES in Congress. Budget cutters now see enactment of package encompassing several appropriations bills as politically expedient way to chop popular but nonessential spending. Also makes it easier for members to vote for programs unpopular among voters. Recovery could help supporters of spending cuts. Good economic prospects cause some income maintenance programs to lose their constituency, eroding political support for them. Republicans say there are enough votes to uphold any Reagan veto of spending bills. Excessive government spending could leave credit markets short about one dollar for every five needed to modernize industry. One result could be weaker recovery in states with concentration of capital goods producers.

▶ WASHINGTON RALLY sponsored by coalition formed by U.S. Chamber of Commerce is planned for October 18, to spotlight opposition to domestic content bill restricting foreign auto imports. Measure to protect U.S. auto workers from foreign competition would raise car prices an estimated $800. Bill's union sponsors say it would create jobs; congressional study says

net loss of 66,000 jobs likely from retaliation by nations importing U.S. products. Council of Economic Advisers says each auto job created would cost consumers $100,000 in higher price tags.

▶ FALLING INTEREST RATES on horizon as Federal Reserve system brings growth in money supply within target range. Early October meeting of policy-setting Federal Open Market Committee may decide whether credit markets' confidence in Fed's willingness to control money growth has been restored enough to bring down both long- and short-term interest rates. FOMC wants to avoid rising interest rates in critical second phase of recovery next year, when orders for capital goods are placed. Higher rates have slowed recovery's first phase, which was fueled by consumer spending.

▶ HEIGHTENED MIDDLE EAST TENSIONS no longer pose direct threat they once did to America's oil supplies. Arab oil cutoff would have little immediate effect on this nation. Impact would fall heaviest on Japan, Western Europe. In recent months 90 percent of U.S. oil imports came from non-Arab sources. Biggest suppliers are friends: Mexico, Canada, Venezuela, Britain, Indonesia. Imports now supply one third of domestic needs, down from half at peak consumption in 1979. But under international energy agreement United States pledges to help allies if their supplies are reduced 7 percent or more.

▶ MAJORITY OF AMERICANS prefer federal sales taxes if "government must raise taxes," according to Gallup poll done for government's Advisory Commission on Intergovernmental Relations. Higher federal income taxes are favored by less than one in four surveyed. Preference for federal sales taxes "drives another final nail [sic] into the coffin of tax separation," concept that sales taxes are exclusive domain of state treasuries, report says.

▶ WORKERS' AFTER-TAX REAL INCOME will rise in 1984 for the third straight year, Chicago's Harris Bank forecasts. Continued economic growth, rising productivity, moderate wage settlements are responsible for dramatic turnaround in economic well-being. Major blue collar wage settlements negotiated during the first six months this year averaged .9 percent in first year of contract, 2.7 percent over entire contract period. This was lowest rate of increase in any six-month period in last 15 years, Labor Department says.

▶ WHO WILL CONTROL SENATE after 1984 elections is rated tossup. Business is studying impact if Republicans lose control. Extreme liberal Democrats could head Labor (Edward Kennedy, Mass.); Judiciary (Joseph Biden, Del.); Foreign Relations (Claiborne Pell, R.I.); Veterans' Affairs (Alan Cranston, Cal.); Governmental Affairs (Thomas Eagleton, Mo.). More moderate William Proxmire (Wis.) would chair Banking. Southern senators--usually more business-oriented--would head 9 committees. Of 33 Senate seats up for election next year, 19 are held by Republicans, 14 by Democrats.

▶ SUPREME COURT APPOINTMENTS may become issue in presidential politics next year. Next President may have rare opportunity to appoint majority of members to that tribunal. Five of nine justices will move into their 80s during term of President taking office in 1985. Successors chosen could influence court decisions for next generation.

▶ GROSS NATIONAL SPIRIT--statistical measure of Americans' optimism about future--is up 15 percent over last year. Survey by Yankelovich, Skelly & White asks six questions about personal satisfaction, nation's future. Last year two fifths of those surveyed said things would get worse. Now only one fifth feel that way. Nearly half see better times ahead, versus 30 percent year ago. GNS index for unemployed, those least optimistic, is up 38 percent. Only students register drop in optimism. Republicans are more optimistic than Democrats. Though still below optimism of whites, GNS index of nonwhites is up 32 percent.

A Plug for Planning

"Don't Pull the Plug on Economic Growth" [September] sounds an appropriate warning about future electric power supply in the United States. This article draws needed attention to the link between economic development and electricity availability.

It is time, as the national economy continues to gain momentum, for the American public, its political leaders and certainly the business community to examine carefully the long-term issue of electric power supply. Proper planning and policy direction can ensure a reliable and affordable electric power system able to sustain a healthy rate of economic growth.

An informed public will be more likely to support those actions in the near term that will lead to a desirable energy system in the long term.

SHERWOOD H. SMITH, JR.
Chairman
Carolina Power & Light Company
Raleigh, N.C.

Praise for EPA

Re: "How To Survive an EPA Inspection" [August].

While the article made several excellent points concerning Environmental Protection Agency inspections, it failed to mention the fact that EPA is only trying to help clean up the environment, not harass companies. All of the EPA personnel I know are very capable and highly qualified individuals who are willing to serve the public.

If there were no watchdog over discharges into our air and water, can you imagine the effects on the environment?

Let's give EPA the credit it deserves.

DON COBB
President
Environmental Services Corporation
Shreveport, La.

Export storm

Re: "Shootout Over Control of Exports" [Outlook, August].

The real problem for American business is the disruption that excessive and unnecessary government controls cause in U.S. exports to our allies and normal trading partners in the free world, not the selling of high-technology goods to Communist nations.

The comment, attributed to a congressional staffer, that U.S. firms are worried about the loss of Soviet bloc markets for their high-tech products is the sort of false assumption that makes it so difficult to reconcile the views of the business community with those of well-intentioned but sometimes totally misinformed members of Congress.

Yes, there probably will be a shootout, and it will be our friends who shoot the U.S. export market in the foot.

STEPHEN R. HARRICK
Manager, Government Relations
Sylvania Systems Group
GTE Communications Products Corporation
Arlington, Va.

Helpful or hypocritical?

James J. Kilpatrick's column, "The Public Interest Sham" [August], concludes that those who come from the upper middle class cannot speak as consumer advocates. Inferentially, we must wait on a less affluent group with less political and social awareness to help the disadvantaged.

In a democratic society, it is the minority among the advantaged group that is persuasive, politically and socially, in effecting economic benefits for the consumer.

Kilpatrick concludes that it is a sham for the more fortunate to say they want to help the less fortunate. His views must be broadened to include a modest degree of flexibility, which would admit that a few haves may be concerned about the have-nots.

JOSEPH WALDBAUM
San Rafael, Calif.

Displaying his usual consummate skill (garnered no doubt in matching wits with wily West Virginia trout), Kilpatrick successfully casts aspersions on the motives of so-called public interest groups. But he fails to address a few important questions. Have the actions of these groups been harmful to the interests they purport to serve? Have they acted to further their own partisan interests? Are they truly hypo-

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critical scoundrels, as Kilpatrick would have us believe?

The elite of virtually every nation is composed of individuals from highly educated, well-to-do families. And from this elite come not only the establishment leaders but the revolutionaries as well. We should be glad Ralph Nader has chosen to throw books like *Unsafe at Any Speed* at General Motors—and not Molotov cocktails.

JOHN O'ROURKE
Cicero, Ill.

Kilpatrick is guilty of shooting the messenger just because he doesn't like the message. If we didn't have public interest activists to protect us, this nation would be overrun with unsafe cars, our natural resources would be depleted by irresponsible industries, and blacks would still be looking for a way to get their votes into ballot boxes.

JAMES MOORE
Wilmington, Del.

Mutual good

Re: "Bringing Minority Firms Into the Mainstream" [August].

The Minority Business Development Agency and the U.S. Chamber of Commerce share a mutual goal in restoring America to greater economic prosperity. In that effort, small and minority-owned businesses can make a tremendous contribution. Working together, we can achieve our objectives.

VICTOR M. RIVERA
Director
Minority Business Development Agency
Washington



What's right is right

I was glad to see the right-handed threads on the light bulb on your September cover. There were left-handed threads on the water faucet pictured on the August cover.

KENNETH REVIER
Vice President
Western Well Service, Inc.
Wichita Falls, Tex.

Editor's Note: You have caught us in an error that occurred when artistic license triumphed over technical correctness.

Everywhere: water, water

Re: "The Approaching Water-Supply Crisis" [August].

The estimate by the Associated General Contractors of America that $138.6 billion is needed to repair water supply facilities is grossly excessive.

We estimate the cost at $27 billion spread out over 10 years. A survey we made of the nation's 50 largest water utilities also revealed that in all but a few cases necessary infrastructure repairs can be financed locally through modest rate increases.

A new national grant program to help drinking water systems is neither needed nor desirable, and we have so testified before Congress.

What is needed is greater public appreciation of and willingness to pay for

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Most Americans do not recognize the urgency and extent of global water problems. We are headed for a disaster much like the oil crisis of a decade ago. The main difference is that this crisis is a life-threatening one.

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PETER G. BOURNE, M.D.
President
Global Water
Washington

Keep those letters coming

In the past, there was room for people to add their own comments on the response form for the NATION'S BUSINESS Monthly Poll. Now you have reduced the poll to the equivalent of a multiple-choice examination.

One cannot answer a simple yes or no to every question. For instance, "Have you stopped beating your wife?"

JAMES STEWART
New York

Editor's Note: *The new format for the poll was designed for more efficient handling of our growing number of responses. We hope you will use the postage-paid reply card to respond to the survey each month and also write a letter on issues covered to the editor.*

Capital and risk

Re: "Ideas? The Money Is There" [September].

Until investors are able to employ experts in every field, a lot of potential golden eggs will be scrambled on the floor.

But the investor who can envision the idea as the creator intended may benefit substantially.

FRANK KELSEY
Toms River, N.J.

Neglecting the mind

What Kilpatrick said about the "Crisis in Our Schools" [July] relates directly to modern philosopher Vernon Howard's teaching in *1500 Ways To Escape the Human Jungle:*

"How strange that a person will carefully attend to his home or finances, yet completely neglect the development of his own mind."

KLAUS WOLFRAM
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28

YEARS OF EMPLOYEE BENEFITS COMPARED

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The Attack on Sale-Leasebacks

By Gerald W. Padwe, C.P.A.

Under a long-term asset lease, if it is properly structured, a lessee effectively assigns depreciation deductions and tax credits to a lessor. In return, the lessee saves by making rental payments that are lower than comparable financing costs for a purchase. Such leases can be an attractive alternative to conventional financing.

One form of long-term asset lease—the sale-leaseback—came into prominence in 1981–82, when the widespread use of safe harbor leasing was stimulated by the 1981 tax act. Through safe harbor leases, companies that could not use investment tax credits and depreciation deductions (because they did not owe enough taxes) transferred the credits and deductions to firms that could. They sold the assets that had given rise to the tax benefits and then leased those assets back.

Last year's tax act severely curtailed safe harbor leasing. But the publicity that safe harbor leases received seems to have persuaded many tax-exempt organizations—including Bennington College, the city of Atlanta and even the U.S. Navy—that sale-leasebacks still could work to their benefit.

Most of these transactions involve selling an asset, either new or used (like the Atlanta City Hall) to a group of investors, who then lease the asset back to the seller for a long term. The investors are entitled to depreciation deductions on the purchased property; generally, though, no investment credit is allowed. (The Navy, however, acquired new transport ships under a "service" agreement that could possibly allow the owners to take investment tax credits in addition to depreciation deductions.)

Last summer bills were introduced in both houses of Congress to make such sale-leasebacks far less attractive. Buyers would be required to take depreciation deductions over a much longer period. For example, buildings now depreciated over 15 years would be depreciated, in general, over 40 years, if leased to a government or other tax-exempt entity.

Supporters of the bills argue that a stretch-out is in order because the new owners can depreciate property that would not be depreciable if it were still owned by the exempt entity that is continuing to use the property.

The bills' chances are unclear, but do not bet against passage. Either bill, if enacted in its present form, would apply to transactions entered into after May 23, 1983.

IRAs and Business Losses

Most small businesses are unincorporated, and profit or loss is reported on individual tax returns. To the extent that business deductions exceed income, an operating loss is generated that can be carried to returns for earlier or later years. Personal deductions, on the other hand, may not be included in such operating losses.

Two deductions—contributions to an IRA and the special deduction for two-earner families—are given to individuals but flow from the individuals' being engaged in some form of business. Thus it is at least arguable that they should figure in the computation of losses available to be carried back or forward.

IRS apparently disagrees. In an internal document (it is available for public scrutiny but is not to be considered precedential), IRS has determined that these two expenses do not qualify as "trade or business" costs and therefore are not available to generate operating losses.

New Life Insurance Tables

Employers have long been allowed to pay the premiums for up to $50,000 in group term life insurance for an employe without the premiums' being included in the employe's taxable income. Employer-paid premiums for insurance in excess of $50,000 do generate taxable compensation, based on the cost of the excess coverage. That cost has been determined under a 1966 Internal Revenue Service table of uniform premium rates; employers have been required to use the table regardless of actual costs.

Since 1966, however, mortality rates have declined significantly and the cost of term life insurance has declined accordingly. The discrepancy between current rates and those specified by IRS has become so wide that in some cases it is actually cheaper for an employe to purchase his own insurance than to pay the tax on employer-provided insurance. Consequently, in reports accompanying one part of the 1982 tax law, Congress indicated that IRS should revise the table.

IRS has now proposed a new table that reflects mortality experience in 1975–80 and brings excess premium costs back into line. Under the new table, for example, the yearly premium for $100,000 in insurance for a person age 55 or more is considered to be $228 less than under the old table. If the new tables are adopted, they will apply to insurance provided in 1983 and thereafter.

What About Estimated Taxes?

As expected, Congress has finally produced a compromise bill providing for the retroactive repeal of withholding on dividends and interest. However, some readers may have already reduced the amount of their April and June estimated tax installments, assuming that part of their tax liability would be satisfied through interest and dividend withholding in the last half of 1983. Will they now be subject to an estimated tax penalty next April 15?

The short answer is no. Congress provided in the repeal bill that no penalty may be imposed to the extent that an estimated-tax shortfall (for the April and June installments only) is attributable to the withholding requirement. The actual arithmetic is, however, likely to be complicated.

If in doubt, see your accountant. And if it appears that estimated-tax penalties may arise regardless, they may still be reduced or eliminated by increasing withholding from wages before the end of 1983. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

GERALD W. PADWE *is national director-tax practice for Touche Ross & Co.*

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SHARP

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A Hazardous Bill on Hazardous Waste



PHOTO: GARY KEEFER

Legislation before Congress would tighten EPA regulation of small firms that generate hazardous waste, including used crankcase oil at service stations.

A change in the rules governing hazardous waste could spell trouble for small firms that have not been under federal restrictions on disposal of such wastes as paint thinners, used automobile crankcase oil and solvents.

In the past, EPA regulations have applied only to those firms producing more than 2,200 pounds per month. But legislation pending in the House and Senate could lower that to 220 pounds per month or even lower. If so, an estimated 500,000 firms would be affected, including service stations, painting contractors and dry cleaners.

Debate on the House bill, sponsored by Rep. James J. Florio (D-N.J.), was interrupted by the August recess but is expected to continue into early fall. The U.S. Chamber of Commerce and trade associations of affected industries oppose the Florio bill, citing increased paper work and cost to the consumer. They favor a bill sponsored by Sen. John H. Chafee (R-R.I.) that considers small business impact.

High Marks So Far For an OSHA Test

An experimental program that exempts businesses from occupational safety and health inspections for one year may become permanent in 1984.

Small businesses are the focus of the Occupational Safety and Health Administration's program, which exempts firms from general schedule inspections after they undergo a voluntary free consultation and make changes necessary to comply with OSHA requirements.

The free on-site consultations have been available in Alabama, Arkansas, Florida, Georgia, Mississippi, Oklahoma and Texas since July, 1982. Due to end after one year, the program was extended to January, 1984.

"We believe this is an experiment worth continuing while we address the possibility of expanding the program nationwide," says OSHA head Thorne G. Auchter.

California, North Carolina and South Carolina have similar programs. They are among 24 states authorized to conduct their own inspections.

Putting the Spotlight On Minority Firms

The week of October 3-7 has been declared Minority Enterprise Development Week, with the Minority Business Development Agency orchestrating activities around the nation and in Washington.

Part of the program will be a series of awards to Minority Business Persons of the Year. Individual awards will go to a manufacturer, retailer, builder and service firm owner. MBDA, part of the Commerce Department, will make the final selection from nominees provided by regional offices. President Reagan is expected to present the awards in a White House ceremony.

Businesswomen are another sector receiving White House attention. On October 21-22 at Somerset, N.J., and October 26-29 in Los Angeles, the Reagan administration's interagency committee on women in business will kick off a year-long round of conferences.

Rounding out the administration's small business-oriented efforts this month is the Fifth National Conference on the States and Small Business, which the office of the chief counsel for advocacy of the SBA is sponsoring. The sessions will be held October 12-14 in Minneapolis.

Preferred Lending Is Moving West

The Small Business Administration's Preferred Lenders Program—a red-tape-cutting innovation—is moving west to seven more states: California, Nevada, Arizona, Hawaii, Illinois, Ohio and Wisconsin.

PLP was tested by the SBA earlier this year with six banks in the New York City area.

Under PLP, banks approve loans for more than $100,000 that carry a 75 percent SBA guarantee; the guaranteed amount cannot exceed $500,000. (Loans under $100,000 can get a 90 percent guarantee but only with SBA approval.)

The SBA relies completely on the lenders' credit analysis.

Participating banks in California are the Bank of America and Wells Fargo Bank in San Francisco and First Interstate Bank of California, Security Pacific National Bank and West Coast Bank in the Los Angeles area.

Thunderbird Bank and Valley National Bank, both in Phoenix, will be PLP lenders, as will the Bank of Hawaii in Honolulu and the First Interstate Bank in Reno, Nev.

In the Midwest, the SBA has chosen the Busey First National Bank in Urbana, Ill., along with the South Shore Bank and Continental Illinois National Bank and Trust Company in Chicago. The Continental Bank in Buffalo Grove, a wholly owned affiliate of Continental Illinois, also will participate.

Bank One of Columbus and Bank-Ohio National Bank of Columbus and Mid-American National Bank and Trust Company of Bowling Green are the selected Ohio banks. In Wisconsin the banks are the Bank of Commerce, First Wisconsin National Bank and Marine Bank in Milwaukee and Security First National Bank of Sheboygan.

Expansion of the program to other states will not take place until 1984.



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POLITICS

New Battleground: Industrial Policy

Look for political battle lines to be drawn in next year's presidential election campaign over a proposed national industrial policy.

The AFL-CIO executive council gave its strong endorsement in August to a policy that would develop new competitive industries and either modernize or phase out "smokestack" industries.

Sen. Edward M. Kennedy (D-Mass.) and Rep. John J. LaFalce (D-N.Y.) have led efforts to shape a legislative package outlining an industrial policy.

Democrats will seek misguided central government solutions, through subsidies, regulations and added taxes, say critics like Rep. Jack Kemp (R-N.Y.).

As the Democrats plan to push for a comprehensive industrial policy through a major plank in their platform at next July's presidential nominating convention in San Francisco, the Reagan administration is moving to cut off the Democratic initiative.

President Reagan has appointed John A. Young, president of Hewlett-Packard Company, to head a Commission of Industrial Competitiveness. The panel's task: to recommend "policy changes at all levels of government" that will improve the private sector's ability to compete in the international marketplace.

The Young commission's findings could be a factor in formation of the GOP platform next year.

An Olympic Squeeze On TV Campaign Ads

National political advertising in a presidential election year always has to compete for key advertising time on the TV networks during the Olympic games. But in 1984 the competition will be especially fierce, says Hal Katz, senior vice president of Vitt Media International, because the summer Olympics will be held in the United States.

Experts predict total TV political advertising costs will reach $180 million in 1984, compared with the $90.6 million spent in the last presidential election year. The cost of all media political advertising was $285 million in 1980. It is expected to exceed $400 million next year.

Robert A. Frank, president of the media service division of SFM Media Corporation, says that "nothing could be worse than the presidential election year of 1976, when not only was there an Olympics but there was the nation's bicentennial celebration," heightening the competition for the advertising slots and putting upward pressure on the cost of time for TV commercials.

SFM has handled the placement of much Republican presidential campaign advertising, and Vitt is likely to work for the Democratic ticket in 1984.

Unlike "creative" agencies that develop the commercials themselves, placement agencies concentrate on where, when and how to place the commercials. Cable TV ads will be emphasized more next year than ever before, Katz says, because the rates are so much cheaper than the networks' rates.

PHOTO: RICARDO FERRO—PICTURE GROUP



The 1984 Olympics will be held in Los Angeles, boosting Americans' interest.

REAL ESTATE

Few Bright Spots for Office Rentals

Despite the fourth straight semiannual decline in the U.S. office space occupancy rate—now 87.2 percent—commercial real estate is rebounding in several major markets.

A survey by the Abacus Group, a mortgage banking firm that finances income-producing property, found that, in Boston, heavy demand for office space from service and high-technology industries will result in the completion of 4 million square feet of new space in the next 18 months.

Downtown Orlando has added almost 1 million square feet in the past seven months. In Northern Virginia suburbs of Washington more than 1 million additional square feet were leased in the first third of the year.

Yet the overall picture is quite grim, according to the Building Owners and Managers Association International. The reasons: a glut of new office buildings, a dearth of new businesses and the recent recession. The Southwest is posting only 83 percent occupancy, mainly because of overbuilding.

Building owners are now using such tactics as having tenants sign five-year leases with two years rent-free, relaxing rent escalation clauses and awarding prizes to brokers who lease large blocks of space.

Overbuilding and the recession combined to produce a surplus of office space.



PHOTO: DAVIS WALDEZ

The High Cost Of Employe Transfers

Executives earmarked for transfers can relax, one expert says: Corporations are not about to eliminate or reduce their relocation benefits packages.

"Companies can't cut back on benefits," asserts John Moore, executive vice president of Merrill Lynch Relocation Management, "because moving gets more difficult every year, and the demand for skilled and experienced workers is so intense that companies must remain competitive."

The Employee Relocation Council, trade association for the relocation industry, estimates that 300,000 employes were transferred last year. Average total cost for relocating one employe is $42,000.

One cost-containment measure companies can adopt is to move only top-level executives, Moore says. Another: creating more flexible mortgage assistance programs.

Traditionally, companies have relied on the mortgage interest differential allowance, a three-year subsidy to help employes cope with differences in mortgage rates between old and new locations. But, Moore notes, companies can take a drubbing from MIDAs when interest rates start coming down.

Another trend in relocation benefits: a decline in cost-of-living adjustments. "Companies are recognizing that the key to the COLA lies in housing and mortgage costs," Moore says, "and as they address these factors, the need to provide COLAs is disappearing."

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WNB-103

The Sharp Drop in Foreign Investment



PHOTO: BRETT FALBER—IMPACT

Heron Industries, a British firm, owns U.S. properties like this office building.

Foreign investment in the United States dropped sharply in 1982, Commerce Department figures show. In part that was because 1981 had been an unusual, record-breaking year for investments from abroad; the global recession also played a role.

R. David Belli, chief of the research branch at the department's bureau of economic analysis, says it is too soon to tell about 1983, "but all indications so far are that it will be no worse than 1982 and possibly somewhat better."

In 1981, with oil-rich Arab states leading the way, foreigners spent $23.2 billion to acquire or start 1,332 U.S. businesses. Last year—with, Belli says, "soft demand, weak earnings and uncertainty about the future, especially in the petroleum industry"—foreigners spent $8.6 billion to gain control of 788 U.S. businesses.

The major area of investment in 1982 was real estate. Foreign interests acquired $2.3 billion worth, mostly in small parcels. A major exception was Britain's Heron Industries, which bought 12,000 acres near Tucson for $75 million in cash from the estate of Howard Hughes. So far, Heron has sold 2,000 of those acres for $55 million, mostly to California investors.

Among the big purchases planned so far in 1983, the Allied Irish Bank has announced its intention to pay $150 million for controlling interest in First Maryland Bancorp, with assets of $3.4 billion. The biggest investors no longer are Arab states. The British now lead, followed by the Swiss, Canadians, Germans and Japanese.

A Call for Lifting Barriers to Trade

"True freedom of movement for goods, services and the resources for their production," says a new report, "would have an electrifying effect in improving standards of living everywhere in the world."

Business leaders on six continents contributed to the unique report, "Toward an Unlimited Future," by a group known as the Global One Hundred.

It took two years to compile the report, issued this fall by Business International Corporation, of New York.

Among its conclusions, the report urges that barriers to "the free international flow of goods and services be eliminated" by (1) reversing the present tide of protectionism, (2) giving the international body known as the General Agreement on Tariffs and Trade greater power to impose sanctions and (3) creating a worldwide organization for foreign investment or channeling such activity through GATT.

Will Rail Rates Hurt Coal Exports?



PHOTO: JAMES COOK—FOLIO

Higher costs of rail coal-hauling would have heavy impact on Western mining operations like this one.

Deregulated railroad rates for hauling coal could go up sharply, the Energy Department's Energy Information Administration says. It estimates that rates could rise 29 percent by 1985, 71 percent by 1990 and 90 percent by 1995.

Such increases would mean, EIA says, that coal exports decline 14 percent and production 2 percent by 1985. By 1990 exports could decline 21 percent and production 5 percent. Hardest hit would be Western coal production, which requires longer hauling. A second EIA report challenges hopes that dredging ports deeper would draw enough giant coal-carrying ships to make exports more cost-effective.

"U.S. coal exports are likely to increase only slightly as a result of port deepening," the report says. The larger ships would reduce the average cost of U.S. coal exported to Europe by less than $4 a ton. "This savings is not sufficient to alter the United States' position as a marginal supplier in the world coal market," EIA concludes. (A coal industry spokesman concedes that deepening would have little near-term effect but says it is important for the long term.)

There is a worldwide trend toward hauling coal in ships of over 100,000 tons. No American port can handle a ship heavier than 80,000 tons.

The study also says, in reviewing another issue, that the imposition of user fees on shippers for port deepening would not discourage exports significantly.

Making Energy Do Double Duty

During the first century of the industrial revolution, most factories recycled energy until fuel became cheap enough to waste. Over the past decade, many companies have been turning back the technological clock by introducing cogeneration systems.

Such systems produce both usable heat or mechanical and electrical power from the same fuel source.

The market research firm of Frost & Sullivan predicts that manufacturers will invest $58 billion over the next 17 years to recapture and re-use power.

Systems vary in design depending on which industrial process is involved. Frost & Sullivan says $11 billion will be invested in boiler plants, $7.7 billion in steam turbines and $4.7 billion in gas turbines, with the rest spread across many other processes.

In most cases, energy expended in production will be recycled into heating factories and plants.

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ECONOMY

Why Recovery Needs Growing Inventories



PHOTO: DAVID WALDEZ

On the way to join retailer inventory: a scene in New York's garment district.

A key to maintaining the pace of the recovery is for retailers' inventories to grow in anticipation of a strong end-of-the-year selling season.

For most of the year, the ratio of inventory to sales—a measure of the quantity of goods retailers have on hand to sell—has been at or near historically low levels.

Economists like Robert G. Dederick, under secretary of Commerce for economic affairs, offer several reasons for small inventories. For one thing, manufacturers are reluctant to gear up production and retailers hesitate to fill up order books, only to get caught with a lot of unsold merchandise in the event that consumer spending shrivels. Also, many companies have simply underestimated the strength of the recovery.

Consumer purchases of "big ticket" durable goods bought on credit and of nondurables—goods that have a comparatively shorter lifetime—have slowed from the torrid pace set in the middle of the year. Economists are now looking to retailers' writing up a lot of orders to keep the nation's factories busy.

With consumer confidence near all-time high levels, savings up a bit and stock owners willing to cash in some of their recent gains, the outlook for a brisk selling season is bright.

Can We Avoid A Credit Collision?

Do huge federal budget deficits mean that government borrowing and the credit needs of business must inevitably collide?

"No," says Edgar J. Fiedler, president of the National Association of Business Economists and chief economist for the Conference Board, a business research group. "What it takes to avoid the collision is superior performance in productivity"—greater economic output per unit of labor input.

Fiedler says that annual growth in productivity of 2½ percent, as in the 1960s—rather than the 1½ percent average annual rate registered in the 1970s—"will make everything fit. We could slip through without a credit collision." (A 2½ percent rate would require quite a jump, since the past five years the average growth in productivity has been zero. However, productivity was up 3.2 percent in the 12 months ending last June.)

Raising productivity growth back to 1960s levels will require a 50 percent increase in business investment, says Fiedler.

Absent that level of investment, he prefers to see spending cut rather than taxes raised. "If taxes are to go up, they should be on consumption rather than on savings and investment," he says.

But Fiedler acknowledges that economic forecasting is a highly uncertain trade: "He who lives by the crystal ball learns to eat ground glass."

TRANSPORTATION

Letting Railroads Own Truck Lines

An Interstate Commerce Commission proposal to remove the last barriers to railroad ownership and operation of trucking lines could mean substantial consolidation of the two transportation industries—but probably not in the near future.

Railroads are now allowed to operate only trucks carrying goods to and from freight trains. The ICC is expected to put into effect this month its proposal to permit railroads to engage in general road transportation.

Acquisition of trucking companies by railroads "could lead to the creation of total transportation companies that would mean a better bargain to the public in the future," says Association of American Railroads spokesman Chris Knapton.

But the short-term prospect is for a dual system. The trucking industry is in recession now, Knapton observes, adding: "We've got 14 unions to deal with now. Why would we want to deal with the Teamsters?"

The American Trucking Associations, which has opposed removing existing restrictions, says greater railroad ownership of trucking companies will be bad for the public.

Railroads have an overriding interest in "turning freight back to rail regardless of efficiency and the cost of movement," says ATA General Counsel Nelson Cooney.

"Cargo Preference" May Be Foundering

Legislation to boost the size of the American merchant marine fleet may be headed for the rocks. Energy and agricultural interests are trying to blockade it, and insiders predict they will have the votes to do so.

Rep. Lindy Boggs (D-La.) introduced a bill—it has almost 150 cosponsors—that would raise the existing requirement that importing and exporting companies carry 4 percent of their bulk cargo in U.S. vessels. The requirement would rise to 5 percent in 1984, and by 1 percent annually after that, until U.S. ships were carrying 20 percent of all American cargo.

"The United States does not have a merchant fleet capable of moving a sizable portion of its waterborne trade," says Boggs. "It does not have a merchant fleet capable of serving as an effective auxiliary in time of war or national emergency." Petroleum industry shippers maintain that a mandatory shift from cheaper foreign carriers would mean a $29 billion increase in the cost of oil for American consumers by the year 2000.

The U.S. Chamber of Commerce says the legislation would place an unfair burden on bulk shippers, a major source of American export earnings.

Some legislators want to require sending more U.S. goods in U.S. ships.



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The Rising Threat Of Tax Raises

By Peter A. Holmes

ONCE AGAIN, Bob Dole is talking about closing tax loopholes, and business is listening—apprehensively.

When the powerful chairman of the Senate Finance Committee last talked that way, he touched off a series of events that led to passage of a $100 billion tax increase, which fell most heavily on business.

Now the Kansas Republican is calling for a domestic economic summit meeting, at which President Reagan and congressional leaders would draft a long-range fiscal plan that would link spending controls with "tax reform, loophole closing and other revenue-raising devices."

Dole's comments were a strong reminder to business that tax increase forces are still in action on Capitol Hill. In addition to his call for consideration of "revenue-raising devices," these are other warning signals:

• Congress is already on record—through a budget resolution last July—in support of $73 billion in higher taxes over the next three years, though it has yet to decide how the money is to be raised.

• The Senate Finance Committee is readying for floor action a bill that would raise $12 billion to $15 billion of that amount from a variety of sources, including business.

• Rep. Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee, is suggesting legislation that would, among other things, block tax relief scheduled under existing law, including income tax indexing and reductions in estate and gift taxes.

• The administration is backing legislation that would place a ceiling on the amount of employer-paid premiums for workers' health insurance that are not now taxable to employes. Debate continues on whether other fringe benefits, ranging from pension contributions to company-paid meals for workers, should be taxed as income.

• As now drafted, legislation to curtail tax-exempt lease financing could have an inadvertent but adverse impact on manufacturers of computers, diagnostic equipment and other short-lived assets, as well as on manufacturers of telecommunications, aerospace and other equipment. (In such leasing, a government or other tax-exempt entity sells property, then leases it back, with substantial tax benefits to the lessor.)

• A Democratic bill, offered in response to public demands for a major simplification of the tax system and likely to become a centerpiece of the Democrats' 1984 party platform, promises lower rates to all taxpayers, but its fine print would mean substantially higher taxes for some individuals and industries.

No major tax proposal is expected to be enacted imminently, but the likelihood grows of a tax increase push in 1985—after the presidential and congressional elections.

The many tax increase proposals now pending in Congress constitute an advance warning of potential policy direc-

These New York Federal Reserve Bank traders buy and sell government securities, thus regulating the money supply and affecting interest rates. Interest rates are a focus of tax increase proposals on Capitol Hill.



PHOTO: GARY KEPPER

Paul Craig Roberts (right) is a defender of low taxes. Sen. Bob Dole (below) wants a summit on "revenue-raising devices."



PHOTO: DAVID VALDEZ

tions over the next two years. Obviously, business planners cannot exclude the possibility of higher federal taxes, or denial of scheduled tax relief, in long-range projections.

MOST TAX INCREASE advocates argue their proposals would benefit the economy by reducing budget deficits that, they contend, threaten to send interest rates back up and choke off the recovery.

Finance Committee Chairman Dole holds, for example, that "the big cloud over the recovery is high interest rates, so we ought to attack the deficit now. In my view, businesses are willing to take a slap on the revenue side if they get interest rates down."

He says he would like to see "$50 billion to $60 billion in new taxes over the next three years, coupled with that much spending restraint."

But it is doubtful that business is necessarily "willing to take a slap on the revenue side." Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce, told a Ways and Means hearing on tax policy: "Tax increases at this time would be misguided and potentially fatal to the nascent economic recovery."

Others hold that tax increases are not needed to whittle away at deficits because the recovery will generate significant new revenues for the government.

Paul Craig Roberts, a supply-side economist who was assistant Treasury secretary for economic policy when Reagan administration plans to cut taxes and spending were formulated, says, "Let's let the economy grow, and see what that does to the deficit."

Already, advocates of the administration's economic growth policy are seeing its fruits. Treasury Secretary Donald T. Regan says that, on the basis of upward revisions in official forecasts of economic growth in 1983, the government can expect $55 billion in new revenues over the next three years. This is about three quarters of the tax revenues Congress asked in last July's budget resolution.

Roberts views proposals for broad tax increases as "a political attack on Ronald Reagan."

As long as higher-tax advocates "can contend that the effect of the President's economic program has been to produce big deficits and high interest rates, they have him on the run, and he stays on the defensive," Roberts says.

Can tax increase advocates repeat their successful 1982 strategy, in which they won Reagan's support for higher taxes by pledging spending restraint? Roberts comments: "When Reagan bargained for $3 in spending cuts for every $1 in tax hikes, Congress didn't even give him 59 cents. They want to make a monkey out of him again." In fact, the fiscal 1984 budget resolution Congress enacted calls for $1 in budget cuts for every $6 in higher taxes.

Beryl Sprinkel, under secretary of the Treasury for monetary policy, attributes interest rate concerns not to budget deficits, but to an unprecedented 13 percent surge in the M-1 component of the money supply in the 12 months ending last May. M-1 includes currency, travelers' checks, demand deposits and other types of transaction accounts.

The surge followed banking system deregulation that encouraged people to put money into interest-bearing checking and other transaction accounts that until then would have been parked in investments—such as certificates of deposit—that are not included in M-1.

Although the Federal Reserve Board moved in late May to curb M-1 expansion, the earlier surge will make inflation higher than it would have been otherwise, Sprinkel says. Reflecting fear that the sharp increase in money supply would fuel inflation, he adds, credit markets raised the cost of borrowing.

The Fed defends its performance on money supply control by noting that M-1 was not an important indicator of future inflation during the May to May period, as it usually is, because, unlike in the past, the M-1 increase was not a precursor of a wave of consumer buying but was instead a response to the banking system deregulation.

Sprinkel has a further argument against a policy of raising taxes to lower deficits. He says it won't work: "A significant portion of increased taxes will end up as increased spending. We at Treasury estimate that the probability is that each dollar increase in taxes might give you a reduction of 30 cents in the deficit. That's not a very good trade-off."

Another early architect of Reagan economic policies, economist Norman B. Ture, challenges claims that forecasts of smaller deficits will bring down interest rates.

The tax increase forces say that the

real interest rate is the nominal rate—the rate actually being charged on loans—minus the current inflation rate. But, says Ture, "the real interest rate should be defined as the nominal interest rate minus the anticipated inflation rate over the period covered by the debt contract."

Assuming that interest rates are a forecast of future inflation rates, Ture agrees with Sprinkel that the key to lower interest rates is controlling the prime determinant of inflation—growth of the money supply—and not reducing forecasts of future budget deficits.

One way the money supply is controlled is through buying and selling of government securities by the New York Federal Reserve Bank. When it buys, the supply is increased. When it sells, the supply is reduced.

Ture, under secretary of the Treasury for tax and economic affairs early in the Reagan administration, concedes that tax increases could cut deficits but says they would do so only in the short run and at an unacceptably high price.

"The only new taxes that are politically feasible," he says, "will reduce capital formation relative to what it might otherwise be." Tax increases trigger an automatic and instantaneous reduction in gross private savings "at least dollar for dollar," he adds.

Under that theory, higher taxes do not lead to lower interest rates but drive up the cost of borrowing by shrinking the size of the capital pool and increasing competition among borrowers.

One argument used in support of higher taxes as an equitable and effective way of lowering deficits and interest rates holds that Reagan administration policies have provided so much tax relief that the system can absorb some adjustments in the other direction.

Higher-tax advocates like House Budget Committee Chairman James R. Jones (D-Okla.) complain that the 23 percent across-the-board cuts in marginal income tax rates since 1981 "have drastically eroded the revenue base" and that the inflation-offsetting indexing of tax brackets scheduled to start in 1985 will make the erosion worse.

BUT Treasury Department figures show that tax revenues are expected to total nearly 21 percent of the gross national product in 1988, higher than in any of the 15 years from 1965 through 1979. On the other side of the ledger, government spending five years from now is expected to consume 23 percent of GNP, also higher than any year in the same 15-year period. Thus, deficits are caused by spending too much, rather than taxing too little, the administration says.

A recent study by the Federal Reserve Bank of Philadelphia reveals that continued inflation since 1981 coupled with the 5-cents-a-gallon gasoline tax increase, additional Social Security taxes and new taxes on business will have increased federal revenues through 1984 by about the same amount as was lost in the 1981 tax bill, $245 billion.

U.S. Chamber economist Rahn agrees: "Surprisingly little remains from the tax relief granted by the Economic Recovery Tax Act of 1981." Federal, state and local tax increases since then, plus the impact of the recession, falling inflation and dropping oil prices,

PHOTO: GARY KIEFFER



Beryl Sprinkel thinks each dollar of tax increase cuts the deficit only 30 cents.

mean that the $749 billion relief promised by the 1981 act becomes $11 billion, Rahn says.

The biggest obstacle to any major tax increases at present is President Reagan's stand that the burgeoning recovery may produce sufficient revenues to begin easing the deficit problem. Sen. William V. Roth (R-Del.), a Senate Finance Committee member, says, "The chances of a tax increase are minimal as long as the President stands firm."

But tax policy could be the major issue confronting the President and Congress taking office in January of 1985—just 15 months from now.

There is a growing view in Washington that, with the election safely past, the White House and Congress will begin searching for new revenues to support a federal budget expected to reach $1 trillion by 1986. While the current administration and its congressional allies see more spending cuts as the answer, Congress' interest in that area has abated since its 1981 peak.

Early signs of activity on tax policy are visible in various calls for a review leading to new revenue-raising initiatives. Dole's call for an economic summit is one. Alan Greenspan, chairman of the Council of Economic Advisers under President Ford and now a key Reagan adviser on economic policy, has also called for such a meeting.

Charls Walker, a former deputy secretary of the Treasury and now a leading business consultant in Washington, proposes creation of a bipartisan commission to examine ways to reduce budget deficits if growth does not do so. The commission would make recommendations to the President and Congress in January, 1985.

The general expectation in the capital is that such meetings and commissions would recommend significant tax increases, along with spending cuts.

ONE IDEA already making the rounds is adoption of a tax policy that falls most heavily on consumption, while further increasing tax incentives for savings and investments. The consumption tax proposal is generally compared to the value-added tax used extensively in Europe.

Speculation over adoption of such a tax in this country is also based on the expectation that federal deficits will be of the magnitude projected for the next several years—from $150 billion to $200 billion annually.

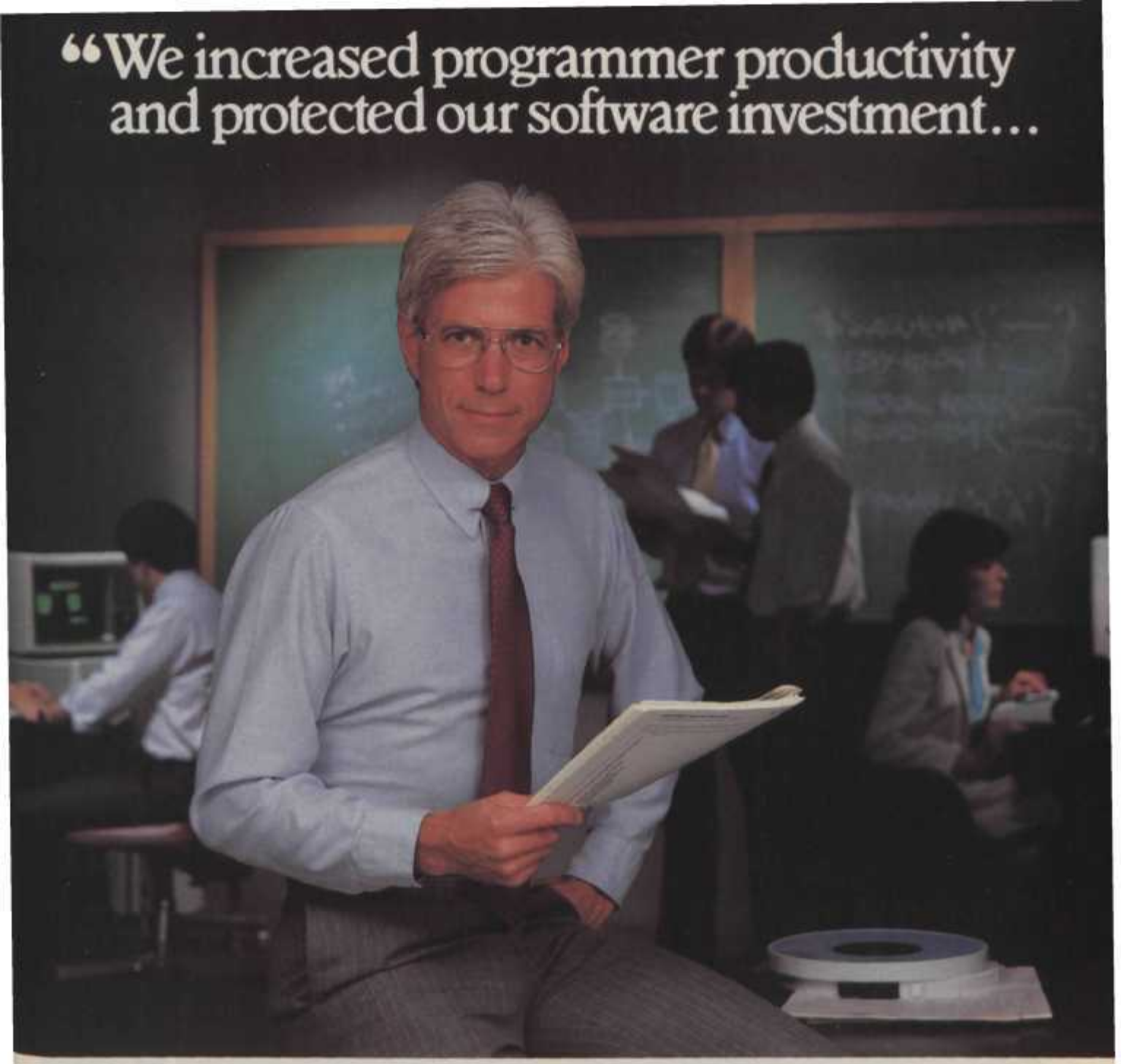
But the Cato Institute, a public policy research foundation, says official forecasts of red ink are open to question. Over the 12 years ending in 1982, the institute says, official estimates of future deficits were within 75 percent of the actual total only three times.

Supply-siders challenge another key argument in favor of higher taxes—the crowding-out theory, the belief that government borrowing to cover big deficits will pre-empt business access to capital. A recent analysis by Smith Barney Harris Upham, an investment banking and brokerage firm, indicates that business borrowing will remain low, relative to past recoveries, because of lower business taxes, accelerated depreciation of assets and higher corporate profits.

In addition, the Wall Street bull market has added $1 trillion to the value of publicly traded stock, the Treasury Department says, making it easier for companies to issue new equity rather than borrow.

How long the arguments of tax increase opponents will prevail is uncertain at this point, however. In January, 1985, the newly elected President and Congress will know how much recovery-generated revenues have narrowed the deficit and what more needs to be done about spending and revenues. It is at that point that a landmark debate over tax policy for the balance of the 1980s will begin. □

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PHOTOS: BARRY KIEFFER

August's march on Washington was a sounding board for political charges about taxpayer-financed benefits.

The Key To Living Within Our Means

Entitlement programs have been growing faster than any other federal spending. It's time, many say, to pull in the reins.

IT IS CALLED the fairness issue, and it is well on the way to becoming a major debating point in the 1984 presidential election. It centers on allegations by President Reagan's critics that his domestic policies injure the poor and benefit the well-off.

The extent to which the issue has already become politicized was evident in the massive August 27 march on Washington marking the 20th anniversary of the historic civil rights march led by the Rev. Martin Luther King, Jr. The theme of this year's march was "Jobs, Peace and Freedom," but the event was largely a demonstration against Reagan administration policies.

Benjamin Hooks, director of the National Association for the Advancement of Colored People, showed a mind-set typical of the march's leaders when he called for a declaration of war "on the present policies of the Reagan administration—policies that punish the poor and reward the rich."

Faced with such charges almost from the outset of his presidency, Reagan has pledged that in his administration both those in need and the taxpayers would be treated fairly. He said the object would be to see that none of "the truly needy" is denied help, but that, at the same time, fraud and waste are stamped out.

In most respects, the so-called fairness issue is actually the latest incarnation of an issue that has been growing in importance for the past 20 years: the soaring cost of entitlement programs.

These programs constitute the machinery through which the federal government pays to individuals hundreds of billions of dollars it has collected in taxes from other individuals and from businesses.

The programs derive their name from their open-ended nature—individuals who qualify for benefits are entitled to receive them without regard to budget ceilings.

Costs of entitlement programs have been the fastest-growing component of federal spending—up 400 percent since 1970.

The principal entitlement programs are Social Security, medical care to the elderly and needy, military and civilian federal employe pensions, veterans' benefits, unemployment assistance, food and nutrition programs, welfare and farm price supports.

Total outlays under those and other entitlement programs will reach nearly $400 billion in the 1984 fiscal year, which begins this month, compared with $112 billion just 10 years ago (see table).

The food and nutrition programs include the food stamp program, which began as an entitlement program but is no longer officially classified as such because Congress sets budget ceilings on it. The legislators routinely breach

those ceilings and provide as much money as is needed to meet demand, however, and the outlays have thus retained their open-ended character.

WHAT HAS BEEN responsible for this tremendous surge in costs? Basically, fiscal experts say, it was Congress' continuing creation of new entitlement programs and expansion of older ones on the assumption that federal revenues would continue their exponential increase indefinitely.

Another major cost impetus was the policy of linking benefits to the consumer price index, without any forewarning that inflation would reach the levels that it did in the late 1970s and early 1980s.

The General Accounting Office estimates that automatic increases in benefits in response to inflation accounted for at least half of the total growth in entitlement benefits during the 1970s and added $27 billion to costs in fiscal 1982 alone. Each percentage increase in the consumer price index adds $1.4 billion to annual Social Security costs, for example.

Rep. James R. Jones (D-Okla.), chairman of the House Budget Committee, says that "the basic issue I am looking at with entitlements—that I think is important to curbing the long-term growth in spending—is this question of indexing."

President Reagan complains that the federal government "has passively tolerated the swift, continuous growth of automatic entitlements." He has proposed changes to reverse that attitude and, an administration spokesman says, "has achieved the first successes ever in attempting to restrain the growth of entitlement programs."

Reagan also concedes that "the growth of these programs has proven difficult to control and continues to be the cause of higher deficits."

Efforts at control precipitated the charges that administration policies were hurting the poor and lower-income families.

House Speaker Thomas P. O'Neill, Jr., a leader of the Democratic forces pressing the fairness issue, ordered the Congressional Budget Office to do an analysis of the effects of the Reagan-initiated budget changes. The CBO study, the Speaker said, "cuts through the smokescreen of Reagan public relations to the harsh truth of the Reagan record."

The study, O'Neill claimed, shows that Reagan "has denied millions of American families the basics of the

Ballooning Billions

This table shows the growth over the past decade in federal payments under major federal programs to assist individuals. Amounts are in billions. Outlays for fiscal 1984, which began October 1, are estimated.

Program	1974	1984
Social Security	$57.5	$182.0
Medical care for the elderly and needy	$17.2	$ 87.6
Federal pensions (civilian and military)	$15.0	$ 50.5
Public welfare	$10.2	$ 20.4
Veterans' benefits (income security and medical care)	$ 9.7	$ 23.0
Unemployment aid	$ 6.1	$ 28.8
Food stamps and other food programs	$ 3.1	$ 18.0
Farm price supports	$ 1.0	$ 12.4



American dream.... That truth will have major consequences in 1984."

Reagan has responded to such allegations by citing continuing increases in spending for social programs (some at a lower rate than in the past) and by noting that his efforts have targeted fraud, abuse and payments to those not necessarily in need.

In proposing further entitlement restraints, Reagan said in his 1984 budget message:

"Our standard here will be fairness—ensuring that the taxpayers' hard-earned dollars go only to the truly needy, that none of them is turned away.... In the food stamp program alone, last year we identified almost $1.1 billion in overpayments. The taxpayers are not the only victims of this kind of abuse. The truly needy suffer when funds intended for them are taken by the greedy. For everyone's sake, we must put an end to such waste and corruption."

BEYOND THE SOCIAL and political arguments, there is the question of the long-term impact of unchecked entitlement programs on the national economy. Current projections show that entitlement spending will be well above $2 trillion over the next five years, a period in which federal deficits will total more than $1 trillion unless there is increased movement toward overall spending restraint.

And, the experts say, that restraint must focus on entitlement programs because of their sheer size. A common response to that assertion from critics of the administration is to point to the military buildup as ripe for spending cutbacks.

The Office of Management and Budget points out that defense spending took 49 percent of the federal budget in 1960 but, even with the Reagan military buildup well under way, will account for 31 percent of the 1985 budget.

Payments to individuals, on the other hand, were 25 percent of total outlays in 1960 and will be 46 percent in 1985. Those figures demonstrate, OMB says, that entitlement programs, not defense spending, have put the greatest upward pressure on federal spending.

In any event, the guns-vs.-butter argument has lost much of its force on Capitol Hill, particularly in view of recent world events that have bolstered support for a strong defense posture.

As a result, Congress is beginning to take a closer look at entitlement spending trends, particularly at the procedures for automatic increases in the benefit levels.

Rep. John Erlenborn (R-Ill.), for example, is sponsoring legislation that would limit the cost-of-living adjustments on pensions and disability benefits to former federal employes. The



Rep. John Erlenborn wants to limit federal retirees' living-cost increases.

increase would be the lower of the percentage gain in the consumer price index or the average national wage, a plan that has been offered for other social programs geared to the CPI.

During the recent period of high inflation combined with depressed economic conditions, benefits of civil service and military retirees and other federal beneficiaries climbed faster than the wages of taxpayers financing the lion's share of those benefits.

Says Erlenborn, "Retired people should never get greater cost-of-living protection than working people."

Other proposals now pending in Congress would set cost-of-living increases at 60 percent of the CPI for entitlement programs not based on demonstrated financial need. Social Security, Medicare and federal pensions are among the major areas not employing a means test.

Basically, control of deficits is being linked more and more in Congress to control of entitlement programs, a step linked in turn to curtailing automatic benefit increases.

An economic analysis by the U.S. Chamber of Commerce looks at the problem this way: "It's impossible to exaggerate the importance of capping entitlement growth. Unless firm action is taken this year, while inflation is falling, Congress risks losing the chance of ever bringing deficits under control.

"Neither tax increases nor more rapid economic growth will relieve Congress of the responsibility of setting permanent controls on federal spending, which now stands at a record 25 percent of the gross national product." □



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Even more surprising: "The U.S. government offers more business incentive programs to encourage sales abroad than do the Japanese and European governments." So says William A. Delphos, a vice president of the Overseas Private Investment Corporation, a federal agency that helps U.S. business to invest and sell abroad.

Delphos' research at OPIC has led to a 200-page book, to be published next month by John Wiley & Sons of New York, titled *Washington's Best-Kept Secrets: A U.S. Guide to International Business.*



PHOTO: GARY KEEFER

William A. Delphos of OPIC conceived Operation Opportunity, a videoconference that will showcase U.S. government programs to spur American sales abroad.

Seven other federal agencies are joining with OPIC to unveil the book at Operation Opportunity, a two-hour videoconference to be televised November 16 to more than 5,000 business executives in 50 cities across the nation.

Participants in the program, to be broadcast through the facilities of the U.S. Chamber of Commerce BizNet satellite transmission service, will receive a copy of *Best-Kept Secrets.* They will be able to ask federal officials questions about specific government programs to aid American firms of all sizes in conducting business abroad. Participants will, in addition, take part in a seminar on issues involving international taxation.

Delphos, who conceived Operation Opportunity, was a top executive with Gould, Inc., a manufacturer of electronic and motor vehicle parts in Arlington Heights, Ill. Two years ago, when he was asked to join OPIC as vice president in charge of operations and marketing, Delphos had never heard of OPIC.

Since then Delphos has conducted surveys of the U.S. business community showing that most of those surveyed not only do not know what OPIC is, they also do not understand how federal agencies like the Commerce Department can help Americans sell goods and services in other countries.

Important information for doing business abroad has not been accessible to the American business community, Delphos says.

"There is no one place to call," he says. "The American businessman comes to Washington and he sees 10 mega-agencies with no central information point. There are countless books on the subject, but time after time they fail to offer a simple how-to guide."

OPERATION OPPORTUNITY has been conceived as a remedy. Its primary objective is to raise the level of U.S. business awareness of federal programs.

Delphos also came up with what he calls the "supermarket" approach—repackaging the government programs by "product" rather than by agency.

"At a supermarket," he says, "if a shopper wants soap, he goes to shelves containing soap. The shelves are arranged by product, not by manufacturer. So if a businessman wants information about feasibility study funding, he should be able to find it in a clearly marked place and not have to wander through several agency 'aisles' to see which ones offer it."

Best-Kept Secrets will thus list government programs by "product" category and not by agency.

At the November 16 videoconference, questions will be answered by top officials of the agencies involved—the Departments of Commerce and Agriculture, the Office of the U.S. Trade Representative, the Small Business Administration, the Agency for International Development, the U.S. Trade and Development Program, the Export-Import Bank and OPIC.

These officials will offer case studies of firms their agencies have aided in the foreign marketplace.

McCrary Electronics of Sweet Home, Ore., is one of those firms. Anxious to sell its wares in South America, McCrary turned to a research program sponsored by the SBA at Oregon State University. Through the program, business students devised a marketing plan for McCrary, complete with research on markets in three countries and names of contacts in those countries. McCrary expects to begin testing the targeted markets later this year. □

—Seth Kantor



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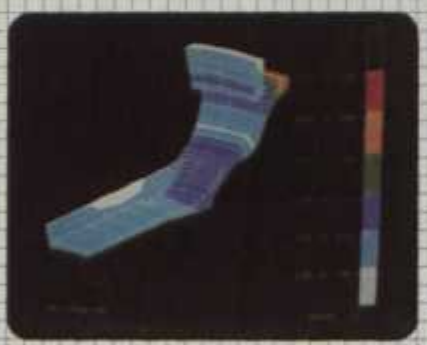
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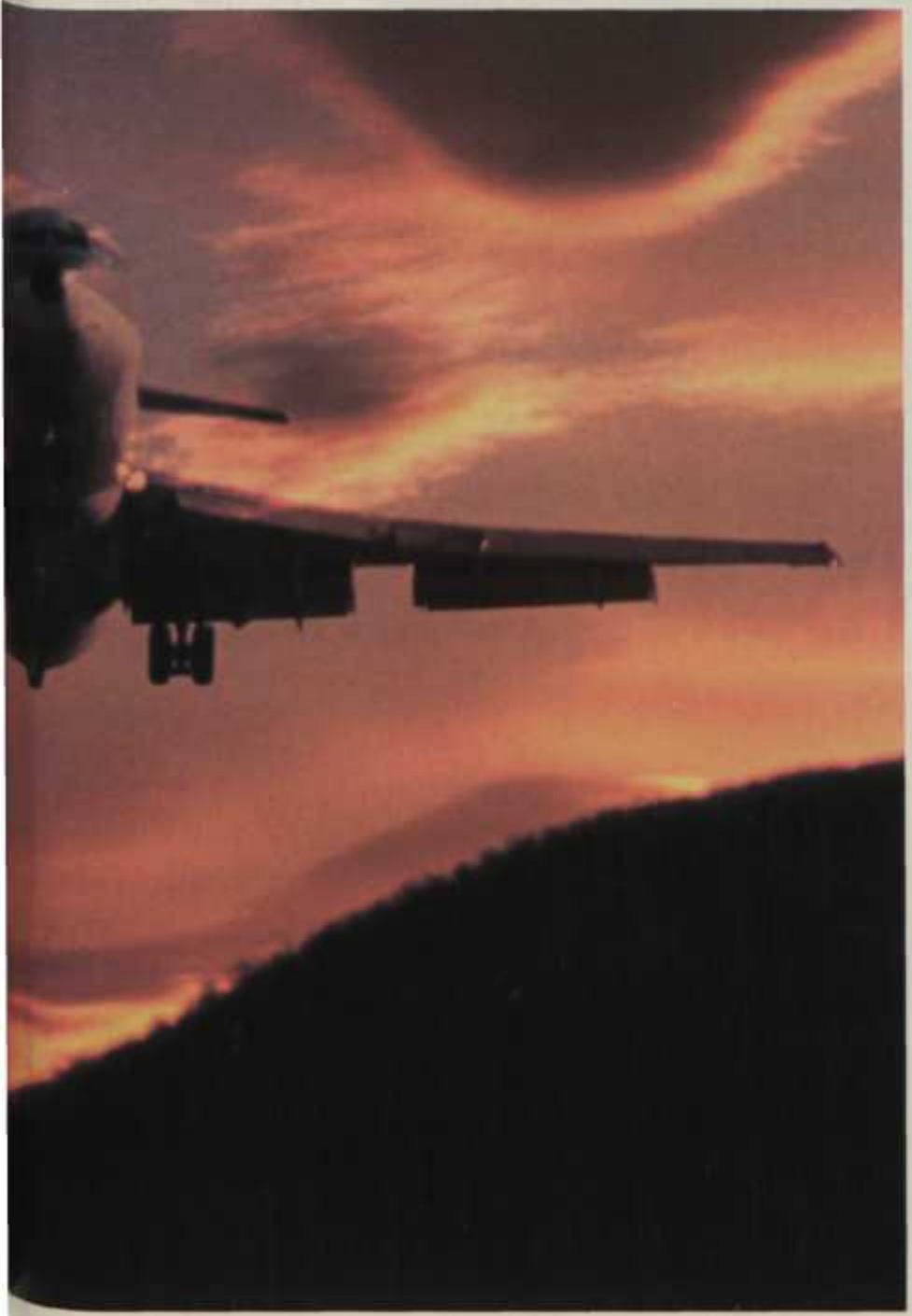
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Seizing The Initiative In The Caribbean Basin

A Reagan plan, now law, is opening new avenues for trade– and more opportunities for U.S. business.

By Seth Kantor



PHOTO: ROBERT MADDEN—FOLIO, INC.



PHOTO: ALAIN KELLER—SYGMA

WHEN BUSINESS PEOPLE think of the nations of the Caribbean basin, "they usually think of helmets and rifles, or of suntan lotion and lying on the beach," says a U.S. Commerce Department official.

But President Reagan's Caribbean Basin Initiative has opened a new perspective on the region. The CBI package, approved by Congress and signed into law two months ago, offers trade concessions to 27 small, non-Communist countries in the basin. (Larger countries, like Mexico and Venezuela, are excluded.) It also encourages American firms to go into business in the 27 countries, which often involves participating with Caribbean counterparts in partnerships, joint ventures and product-sharing investments.

In effect, the CBI—built around allowing Caribbean countries and U.S. firms operating in them to export products to the United States duty-free for 12 years—has become a pilot program for free enterprise in an area where Communist agitators are at work.

Large segments of the American business community know little about the benefits available to them under the Reagan plan, but a number of government and private agencies are now providing advice about doing business in the basin.

The Commerce Department is holding a series of CBI seminars to explain the new law. They are being held in Washington this month, in Atlanta and Savannah next month, in Cincinnati and Indianapolis in December, and in Hartford and Boston in January.

Libby Roper, a desk officer at the Commerce Department, is coordinating the CBI Washington seminar, which is open to 200 participants. "We are covering topics," she says, "that range from joint ventures in telecommunications and agribusiness to the supplying of items for novelty gift shops in hotels and airports."

Minority small business opportunities are being stressed in the Washington seminar. However, as Stanley E. Taylor points out, the new CBI law is "particularly set up" for small and medium-sized firms of all ownerships.

Taylor is director of private sector initiatives for Caribbean/Central American Action, a nonprofit organization chaired by financier David Rockefeller and funded by contributions from the U.S. business community. C/CAA serves as a catalyst for economic development in the basin. Currently, Taylor is coordinating CBI investment and trade seminars and promotions with the U.S. Chamber of Commerce.

Last month he participated in a seminar for Dominican Republic businessmen, who paid their own way to meet in Newark, N.J., with 250 potential investors from four states and government officials.

PRESIDENT REAGAN has been invited to give the keynote speech next month at C/CAA's annual Caribbean Basin Investment Exposition in Miami. Last year the speaker was Vice President George Bush.

C/CAA is using a computerized system called the Caribbean Basin Information Network, which lists American, Canadian and basin businesses interested in trade and investment. The network also carries country-by-country information on incentives and regulations, and on technology, development projects and consultants.

Taylor is coordinating phases of a



PHOTO: OWEN FRANKEN—STOCK



PHOTO: STEPHANIE MAZE—WOODFIN CAMP

PHOTO: PETER GARFIELD—FOLIO, INC.



Bananas from Guyana, processed coffee from strife-torn El Salvador, soap from Jamaica, tobacco from Costa Rica, pottery from Guatemala—a sampling of the products that could be brought into the United States duty-free for 12 years under the Caribbean Basin Initiative.

project that, in an effort to stimulate trade, has paired 25 local chambers of commerce from New England to Texas with chambers throughout the basin. A delegation from the Mobile, Ala., chamber met with members of the San Pedro Sula chamber in Honduras, for instance, to make plans to give Alabama developers and manufacturers access to Honduran markets.

The St. Paul and Minneapolis chambers and the chamber in San Jose, Costa Rica, are planning to hold an agriculture and investment seminar in Minneapolis this fall, with Minnesota Gov. Rudy Perpich and Costa Rican President Luis Alberto Monge expected to preside.

Joel Stipanovich, research manager of the world trade department of the Minneapolis chamber, says that Minnesota investors want to expand Costa Rican exports of dairy products and beef throughout the world. "Cash crops would be developed there for importation by the United States," he says, "and so would freeze-dried flowers and other foliage to be used by interior decorators."

Freeze-dried flowers can be imported from the basin duty-free under the new law, but fresh flowers and plants are not eligible.

Other goods on which import duties are still being levied include textiles subject to textile agreements, leather goods like shoes and handbags, tuna in airtight containers, petroleum, watches and watch parts, sugar, and beef products covered by certain sections of the U.S. tariff schedules.

These schedules give special benefits, under prior agreements, to other American trading partners—for example, Mexico (oil), the Philippines (sugar) and Australia (beef).

DESPITE SUCH continuing restrictions, basin countries can ship most kinds of goods here duty-free for 12 years under the new law.

The Agency for International Development in the State Department commissioned a study to determine the total value of goods that could be imported from the basin. These are the top 10 product categories and their declared value in 1982:

Wines and champagne, $225 million; earthenware and china, $210 million; glassware, $177 million; clocks, $153 million; dolls, $137 million; tomato products, $112 million; ceramic tile, $105 million; bicycles and parts, $98 million; plywood products, $74 million; tobacco, $69 million.

Regarding tomato products, Agriculture Department experts say most American consumers are now unable to get fresh, full-sized tomatoes from any source during January and February. Growers in the Caribbean region will thus benefit greatly during those months from the lifting of the duty on their tomatoes. First, however, they would have to meet U.S. standards on packaging and use of pesticides.

Some American manufacturers of bicycles have complained to the U.S. International Trade Commission that Korean and Taiwanese manufacturers have been dumping their products in this country at less than fair market value. The setting up of satellite production plants in the basin by American bicycle makers—for export to the United States at no duty—could put them back in control of what once was a strictly domestic industry.

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so many industries in the region that the Commerce Department has prepared a "Caribbean Basin Business Information Starter Kit," a 30-page guide for exporters, importers, investors and entrepreneurs. Single copies can be obtained without charge from the International Trade Administration, Room 3027, Commerce Department, Washington, D.C. 20230.

Programs related to the CBI are listed in the kit; among them is one conducted through AID by the Washington office of Coopers & Lybrand, certified public accountants.

UNDER A $5.7 million, three-year government contract, Coopers & Lybrand offers a range of professional services without charge to companies that want to investigate opportunities or set up shop in a string of English-speaking islands in the eastern Caribbean or in Belize in Central America.

Robert E. Brown, director of international management consulting services at Coopers & Lybrand, says, "Some companies might feel more comfortable with us since we are in the business arena. It is easier than calling some foreign country's development office."

Coopers & Lybrand maintains its own representatives in Belize and on the islands and has specialized consultants in the United States.

One of the consultants is Robert N. Carlson, who until this year was president of Harowe Servo Controls, a small West Chester, Pa., company that makes high-tech aircraft parts and computer-related equipment parts to order.

In an effort to meet foreign competition by reducing its labor costs, Harowe subcontracted some assembly work in Singapore in 1972. But the arrangement meant only new headaches for Harowe. Maintaining quality control halfway around the world was impossible, and after two years the company began looking for a better way.

It found what it needed in the eastern Caribbean, on the islands of St. Kitts and Nevis. Harowe, now a subsidiary of Bowmar Instrument Corporation, has established its own subsidiary on the islands and since 1979 has built two new plants there.

William Cuff, Harowe's vice president for marketing, says the company employs about 150 people on the two small islands and plans to double operating capacity and hire at least another 100 workers.

Specialists and management-level employes are flown to West Chester and trained at Harowe headquarters. "The training we provide sometimes turns out to be too good," Carlson says. "Two plant managers from St. Kitts, trained by us, have been pirated away by other companies. But we take it as a compliment." □

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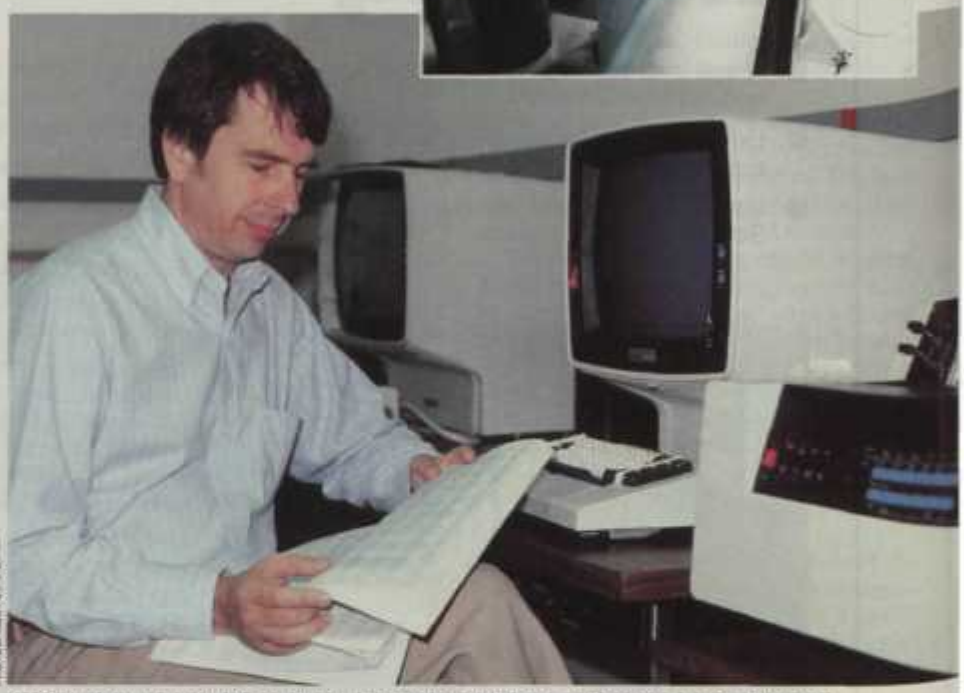
NB1083

New Opportunity In Washington For Small Firms



A 1982 law directs more research dollars to small business. Here is how the law can be put to use.

By Mendel Gragg



PHOTOS: KMS FUSION, INC.

KMS Fusion, of Ann Arbor, Mich., is among recipients of federal funds for small business research. Ron Larsen (bottom) is applying data from technicians like the man with the laser above to an energy frontier, the study of magnetic fusion.

SMALL BUSINESSES are gaining access to a greater share of the $45 billion annual federal research budget, thanks to Congress.

The federal government underwrites nearly half of all research and development in the United States. In the past, roughly 96 percent of federal R&D funds went to universities and large corporations. Small business received a disproportionately small share—on average, 3.5 to 4 percent.

Numerous studies have shown the importance of small firms in conceiving products and commercializing them. One study found such firms produced about 24 times as many innovations per research dollar as large firms. Insulin, the zipper, the ball-point pen and cellophane are only a few of the inventions developed and marketed by small businesses.

Recognizing the value of this type of resourcefulness to the nation's economic growth, Congress passed the Small Business Development Act in July, 1982. The act's objectives are to:

- Stimulate and encourage technological innovation.
- Make more use of small business to meet the government's research and development needs.
- Increase private sector development and commercialization of innovations derived from federal R&D.

The act requires each government agency with a budget of more than $100 million for research and development outside the agency to establish a Small Business Innovation Research Program and set aside a percentage of the budget for use in the program. There currently are 11 such agencies, with the Defense Department the biggest spender and the National Aeronautics and Space Administration a distant second.

Set-aside percentages, by fiscal year:

	Defense Department	All Others
1983	0.1	0.2
1984	0.3	0.6
1985	0.5	1.0
1986	1.0	1.25
1987	1.25	1.25

In fiscal 1983, the first year of the program, some 8,000 applications were received. The agencies are expected to award more than $45 million in fiscal 1983 and $132 million in fiscal 1984. The Energy Department, first to announce selections for fiscal 1983, chose 106 of 1,700 applicants.

Based on current levels of R&D and current dollars, $362 million will be set aside for small business research in fiscal 1987 and each year thereafter under the SBIR program. Some $209 million of the funds will come from the Pentagon and $63 million from NASA.

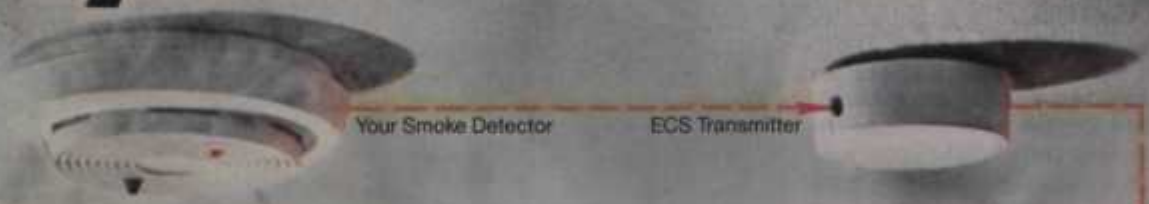
The significance of this to small business participation in federal research and development is greater than may meet the eye. For a small firm to get a federal R&D contract prior to the SBIR program, it had to win out against competitors of all sizes. Small firms often thought about entering the labyrinth of federal-contract paper work under these circumstances and then quickly forgot about it.

But the SBIR program pits small firms against small firms only. The program should teach many such firms that they can meet some of the needs of government agencies. And it should establish relationships that result in greater participation in federal R&D through the regular competitive process.

Eventually, as a result, the small business share of this R&D should be much larger than the combination of the set-asides and the 3.5 percent or so that

MENDEL GRAGG *is small business liaison officer for Battelle Pacific Northwest Laboratories at Richland, Wash., a division of Battelle Memorial Institute.*

Your smoke detector alone can't protect your business. It's useless the moment you leave work.



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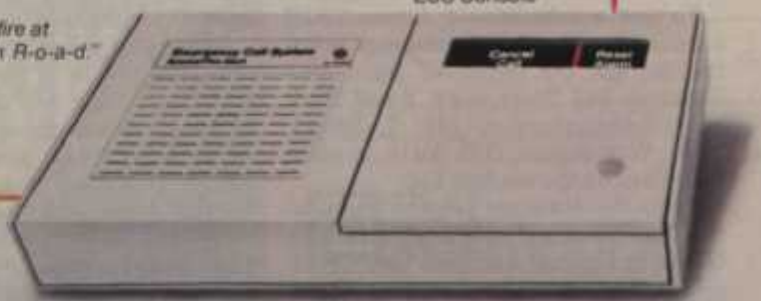
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*Consult your fire department on local laws governing calls made by automatic dialing devices to emergency numbers. Product may not be available for sale in all locations.

small businesses have been getting.

Three phases are involved in the SBIR program.

In the first phase, awards will generally be no more than $50,000 (agency solicitations give specific award ceilings) and will be to determine the scientific and technical merit and feasibility of projects proposed as a result of preliminary research.

In the second phase, awards will increase to around $500,000 and will be to further develop projects to meet particular program needs. Determination of awards will take into consideration results of first-phase activity. Special consideration will be given proposals that offer strong opportunities for future commercialization with private capital.

In the third phase, it is hoped, the research will bear a variety of fruits. The theory is that investors will supply venture capital to pursue commercial applications of the second-phase research and that there will be opportunities to use the research in other work for the federal government.

OBVIOUSLY, the SBIR program has tremendous potential for small business. Unfortunately, many firms that could receive funding either have decided not to become involved—perhaps because of anxiety about government red tape—or are just not aware of the program.

The Small Business Administration is responsible for policy on the general conduct of the program. It also maintains a source file and information program to help small businesses participate.

In addition, SBA coordinates with participating agencies a schedule for release of SBIR solicitations and publishes a master release schedule. Each of the 11 federal agencies that have SBIR programs will issue one solicitation annually. These may identify as few as four or as many as 300 topics for response. You may want to respond to more than one solicitation or more than one topic within a solicitation. Don't waste time contacting individual agencies.

To get a schedule of future SBIR solicitations or general program information, ask the Office of Innovation Research and Technology, Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416, to place your firm on the mailing list.

Also, the National Science Foundation has prepared a *Small Business Guide to Federal Research and Development Funding Opportunities*, available from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402, Stock No. 038-000-00522-7. This would be a valuable marketing resource document for any small research and development firm.

The second generation of SBIR solicitation packages for fiscal 1984 will become available this fall. You can get in touch with the Small Business Administration and request a copy of its presolicitation announcement giving a general listing of agency research topics. After identifying topics of interest, you should ask the designated agency office for a copy of the program solicitation, which provides detailed information on research topics and instructions for proposal preparation.

The SBIR proposal solicitation is designed to reduce time and cost in preparing a response. It is important to follow all instructions and, especially, to conform to the content categories established in the solicitation. The proposal must be directed at research related to one selected topic and be no more than 20 pages, self-contained.

Proposals will normally be judged competitively in a two-stage process. Initial screening will determine whether the proposal meets the solicitation requirements. If it passes this test, it will be evaluated by technical experts. At this stage, scientific and technical merit will be determined and the proposal will receive an overall rating. Later, the ratings will be used in deciding which firms get awards.

The act requires that at least two thirds of the funded work be done by the proposing firm and that the primary employment—more than 50 percent—of the principal researcher's or investigator's time be with the small firm at the time of the award.

Small businesses are sometimes concerned about losing ownership of ideas submitted to the government in a proposal. The SBIR legislation provides for "retention of rights to data generated in the performance of the contract by the small business concern." However, this protection lasts for only two years after the project is completed, and you may want to seek professional guidance to protect your rights to data beyond this period.



PHOTO: BEND RESEARCH, INC.

In one federally funded project, Oregon-based Bend Research will test membranes—highly sophisticated filters, like the one held by the man on the right—for use in removing impurities from a synthetic fuel, coal gas.

TWO MORE TIPS, elementary but important: Before submitting a proposal, consider having a knowledgeable outside individual perform an unbiased review for completeness and accuracy. Also, be certain that proposals are mailed in time to ensure receipt by the closing date specified in the solicitation.

Awards are made as much as four to six months after the closing date for solicitation. Be patient; if you are a successful first-phase participant, you may also be considered for second-phase funding, with the ultimate objective of commercialization and marketing with the aid of private capital.

The SBIR program is both an opportunity and a challenge for small firms. It may also provide a needed boost for productivity and technological progress in the United States. □



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Ex-Prisoners Can Become Producers, Not Predators



The Chief Justice of the United States urges an approach to the prison problem that can help both inmates and taxpayers.

By Warren E. Burger

AS AMERICANS prepare to spend billions of dollars over the next few years for prison construction, we are at a crossroads.

The choice is this: Will we continue building warehouses of convicted criminals, with few facilities for education, training, production and recreation? Or will we build prisons that are factories with fences around them—where inmates, after training, engage in useful production?

Do we want prisoners to return to society as predators or producers?

More stone, mortar and steel for walls and bars will not reduce our high crime rate. It is imperative to consider fundamental changes in our approach to dealing with inmates if we want to fulfill that basic purpose of government, protecting people and property from crime.

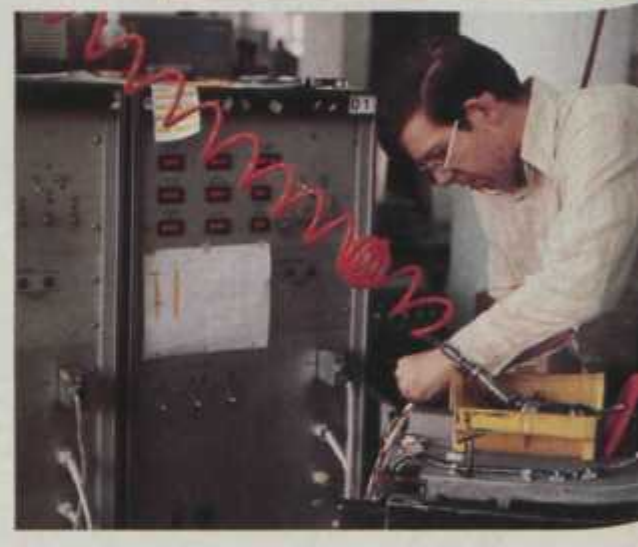
All efforts in the correctional systems to date have not prevented an appalling increase in reported crime rates. Prisoner population in the United States has doubled over the past decade, to more than 400,000. Anticrime legislation, including mandatory sentencing bills adopted by most of the states, may further enlarge the prisoner population, leading to prisoner uprisings like some in the past.

When society places someone behind walls and bars, it has a moral obligation to do whatever can reasonably be done to change that person for the better.

This obligation is not simply a matter of compassion. It is plainly in our own interest to try to make every inmate capable of coping with life when the prison term is over. In doing so we may increase our own safety and the possibility that we can, in the long run, reduce the tax burden imposed on us by criminals' warfare against society.

There are several ways to approach the prison problem.

First, much can be done to decrease overcrowding and otherwise improve conditions by building new and renovating old facilities. Second, confinement can be made more humane and effective by enhancing the caliber and training of prison personnel from the lowest echelons on up. And third, programs that provide education, vocational training and opportunities for work experience can be developed to give inmates marketable skills to use on their release.



Most prison inmates are maladjusted people. From whatever causes—too little discipline or too much, too little security or too much, parental neglect, broken homes—they lack self-esteem, are insecure and inevitably are in conflict both with themselves and society. They do not often share the work ethic that made this country great.

Place such a person in a factory to make ball-point pens, hosiery, cases for watches, automobile parts, lawn mowers or computers, pay a reasonable wage, deduct room and board, and the inmate will have a better chance on release of securing gainful employment.

This concept is not new. Many countries have successful industry programs. I have had a firsthand look at some in Scandinavia a number of times, most recently last summer.

In the United States, Minnesota and Control Data Corporation have pointed the way with a project for a computer assembly unit in the state prison at Stillwater. I have seen that firsthand, too. It works.

The major impediments to the development of prison industries in this country today are laws restricting the rendering of services or the sale of goods made by prisoners. At least seven federal laws, and laws in most states, impose restrictions.

NOT ALL THESE restrictions are contained in archaic statutes, as one might think. This year's legislation providing for a 5-cent gasoline tax increase prohibits use of "convict labor or materials produced by convict labor" in highway construction funded by the tax. The legislation halted plans for a New Hampshire project in which prisoners were to be trained to manufacture highway signs, and it will hurt other states' prison industry programs that also involve manufacturing such signs as well as other highway materials.

Legislation has been introduced to repeal this restriction.

PHOTOS: GARY KIEFFER





Behind the bars of Minnesota's maximum-security Stillwater prison, convicted felons do detailed computer-assembly work. They do it well.

The thinking behind these statutes is shortsighted. Business leaders must not tolerate restraints on the production of goods in prisons and on the movement of the products in commerce. What would be wrong with paying inmates prevailing wages less the cost—or part of the cost—of their confinements, with remittances to dependents, if any?

Fortunately, legislation was enacted in 1979 easing some restrictions on the sale of prison-made goods for up to seven model projects. Qualifying as a model project is still unnecessarily difficult. But certifications have been granted in Minnesota—hence the Stillwater project—and in Kansas, Utah, Arizona and Nevada. This legislation should be changed to allow certification of additional projects, given the success of those under way.

At Stillwater, most prisoners take part in work programs that help them earn their keep. The most significant program involves approximately 50 inmates who assemble computer frames for a Control Data subsidiary. They do so 1.5 times as rapidly as regular company employes.

During a recent three-month period, the error rate of these prison workers was lower than that at any of the company's other assembly units. Top-level company executives traveled to the prison to present pen and pencil sets to each inmate employe, giving them personal recognition for the high quality of work.

The concept that good performance should be rewarded and poor performance should not is central to the American free enterprise system. If ex-convicts are to compete in the marketplace for jobs, they must experience in prison rewards and penalties similar to those that permeate the lives of people on the outside.

Any successful program must pay prisoners for the hours worked, ideally with bonuses based on quality and volume of production. In the Stillwater program, an inmate is paid slightly more than the minimum wage, and a percentage is deducted for mandatory savings. On release, inmates will have not only a marketable skill but also assurance of a job with Control Data—and funds to finance a search for another job if they prefer.

A variation on this Minnesota program is a Kansas project—for Zephyr Products, Inc.—that operates outside as well as within prison walls. Twenty inmates are transported daily by bus to and from the company's metal finishing shop while 12 others work for the company inside the prison. Transportation and meal costs are deducted from inmates' wages, and the inmates pay the state for room and board. Some inmates send home modest amounts each month to support dependents.

HAD WE BEGUN a few decades ago to develop correctional programs appropriate for an enlightened and civilized society, the word "recidivist" might not have the currency it has today.

People who are productive are more likely to develop the self-esteem for a normal, integrated personality. Training in salable skills and work habits cuts through the hopelessness that pervades prisons. The training is essential if the revolving door of return to prison is to be avoided.

A person confined in a penal institution who is unable to read, write, spell or do simple arithmetic and is not trained in any marketable skill is likely to return to a life of crime when released. Who will hire the unskilled illiterates burdened with criminal records? (And what business, by the way, could continue with the rate of recall of its products that we see with respect to the "products" of our prisons?)

Prison production programs will compete in the marketplace, which is why they run into opposition from some business people and labor leaders. But if businesses pay inmates at least the minimum wage, are not subsidized by the government and are precluded from selling below the market, the competition is not unfair. Statutory restraints on unfair competition from prison-produced goods can be devised.

Creating prison industries should reduce the enormous costs of prisons. To maintain an inmate costs taxpayers from $10,000 a year to more than $30,000, not including the large capital cost of physical facilities. That load on the backs of overburdened American taxpayers should be lightened, if not removed.

There are no guarantees of success in dealing with prisoners, but the course we have followed has been a dismal failure. If there are no fundamental changes, the situation will worsen. We will never alter our appalling recidivism rate.

On the other hand, the long-run benefit to society will be incalculable if we make it possible for prisoners to improve and support themselves.

If only 10 percent of those who would otherwise return to prison do not, it would be worth the effort. □

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"Meeting the World Trade Challenge" may be obtained for $95 complete, by calling or writing the Special Projects Division, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062; (202) 463-5755. Orders may be prepaid, or invoiced with shipment.

Beating The Food Stamp Cheats

Computers may help bring the $12 billion program under control.

PHOTOS GARY KIEFFER





Bankers insist that handling food stamps is so costly that they must charge fees to the grocers who deposit them; grocers disagree.

AFTER TWO DECADES of existence, the food stamp program, which serves one in every 10 Americans, is still plagued by administrative nightmares, waste and conflicts all along the delivery chain. Remarks one congressional expert: "The program is at its wit's end."

The Agriculture Department, which administers the program, estimates that about $1 billion of the $12 billion worth of stamps issued annually is lost to overpayments and fraud.

Stamps are discounted by a few unscrupulous grocers for cash; stamps are used to obtain illegal drugs, or they are stolen and counterfeited. Some social workers traffic in stamps. Some applicants misrepresent their needs and misuse stamps once they get them. Illegal brokers seek stamps on the streets and in grocery stores. Thieves take cards that entitle recipients to draw stamps each month.

Food stamp workers are staggering under huge caseloads and constantly changing eligibility regulations. Sometimes, they complain, there is not enough time or money to authenticate what applicants say they need.

There is even a budding controversy over food stamps between grocers and bankers. The Food Marketing Institute, representing food stores, condemns the banks' increasing practice of charging fees to handle the stamps that grocers deposit. The American Bankers Association says handling the bundles of stamps and preparing them for the Federal Reserve System is so labor-intensive that it adds greatly to banks' costs.

FMI's survey showed that 23 percent of its grocer members were charged handling fees by banks. If that becomes an industrywide practice, says Sen. Robert Dole (R-Kans.), grocers could be charged $156 million yearly. That, he says, would be "potentially damaging to the program."

But, protests Katherine Needham of the American Bankers Association, "every retail merchant gets charged for cash and check handling." Some banks, she adds, avoid participation in the program because personnel costs reduce profits.

In the past two years, Congress has enacted more than 30 laws to weed out cheating throughout the system. Food stamp supporters in Congress wrangle endlessly with opponents over eligibility requirements and funding levels.

"We have legislated ourselves beyond anything that's reasonable," says a congressional insider long familiar with the program. "We should leave the states alone and let them try to get a program together that works."

The Reagan administration has moved against fraud zealously, and fraud investigations are up 84 percent this year over last. Refunds to the government from recipients not entitled to stamps have climbed 38 percent.

Food stamps are received by 22.5 million Americans, but most recipients spend less than a year at a time in the program. This complicates record keeping and increases the risk of fraud.

The Agriculture Department is sponsoring Operation Awareness, a program to better coordinate federal, state and local efforts to combat fraud. Calling the food stamp program "our first line of defense against hunger and malnutrition," Agriculture Secretary John Block insists that greater integrity can and must be imposed on the system. One of the best ways to do that, he says, is to share information about successful remedies for abuses.

In Charleston County, S.C., for example, the state worked with the news media to publicize its plans for an exhaustive review of the eligibility of food stamp recipients—but it gave cheaters time to come forward voluntarily without being penalized.

Fearing that computerized comparisons of their actual wages with the wages they had reported to their food stamp offices would disqualify them, many recipients came to local offices and corrected their files. Subsequent reviews in the county showed that mistakes in 98 out of 376 cases had led to $66,525 in overpayments.

Similar results have been achieved in other states as food stamp recipients' reported incomes have been matched with other wage data that the government maintains. Ten percent of the clients in one county office in North Carolina were underreporting their incomes. In New Hampshire 160 households out of a sample of 800 were cheating.

BY POOLING such information, Block hopes to find practical solutions that can be applied nationwide.

Assistant Agriculture Secretary Mary Jarratt sees some hope in moving from stamps to computer-read cards that can be used only by the proper recipients. Such a card would be inserted into a computer terminal at the grocery check-out counter and authenticated when the recipient provided a personal numbered code. Recipients would not get stamps but would instead get computerized credits to apply against food purchases.

"Once the negotiable documents [the stamps] are removed from the program," Jarratt says, "the possibility for illegal trafficking, mail fraud and lost and stolen coupons is eliminated."

Perhaps, some observers say, modern technology will be a big answer to the so far intractable problems of the food stamp program. □

—Henry Eason



PHOTOS: TED WASHINGTON



PHOTO: DAVID



The only complete success story among 13 communities is that of The Woodlands, near Houston, where 280 firms are in tastefully designed buildings like that above. But St. Charles, Md., and two other new towns have been saved by extra federal help. St. Charles' Lake Village Square neighborhood graphically contrasts with Pleasant Hills, in Soul City, N.C., which never got beyond a welcoming sign and a fire hydrant.

Those New Towns, 15 Years Later

Was the federal government wise in bankrolling planned communities? The answer lies in a record of failure—and some success.

By Mary-Margaret Wantuck

LET YOUR EYES rove over manicured golf courses, well-tended tennis courts, miles of winding pathways, lush parks, rippling fresh water lakes. Drink in the serenity of clusters of villages, each village containing several residential neighborhoods of different housing stock, recreational centers, schools, libraries, churches and shopping facilities. Top this off with an interwoven fabric of office buildings and industrial parks.

This is the ideal picture of a new planned community—the kind Congress had in mind 15 years ago when it passed a law providing federal aid, in the form of government-backed loans and direct grants, to private developers of new towns.

At the outset, 13 communities were part of the new towns program, which was administered by a special agency within the Housing and Urban Development Department. But the program foundered quickly, and HUD was forced to foreclose on nine communities that were unable to meet their debt repayments. (Three other communities, all surviving, received grants but no loan guarantees.)

Soul City, N.C., was one of the foreclosure victims (all of which have been either acquired by new developers or sold off in sections). The town was envisioned by its developer, civil rights leader Floyd McKissick, as a haven for black capitalism, with industries that were run by minorities. But Soul City was unsuccessful in attracting residents or business. Now home to fewer than 200 people—and 25 jobs—the town is being sold off in sections. Frank Perdue, the chicken king, has bought a huge chunk of Soul City and plans to build chicken processing plants there.

HUD, after 15 years of chaotic operation and $590 million expended in unrecoverable loan guarantees and grants, finally closed the doors on its new communities program on September 30.

Warren T. Lindquist, former general manager of HUD's now defunct New Community Development Corporation, which ran the program, comments: "I think we've demonstrated that the government doesn't belong in this business, and I hope we have learned that and don't try to do it again."

What went wrong? Whose fault was it? Why did some new towns fail and others survive?

In 1965 President Lyndon Johnson envisioned planned communities as places where the elderly, the handicapped, minorities and low-income individuals could live harmoniously with more affluent owners of market-priced housing, all of them enjoying equal amenities.

Congress went further, seeing a new-town program as a method of containing costly and haphazard urban sprawl, to protect the physical environment and conserve natural resources and to encourage the development of communities that had adequate tax bases, job opportunities and racially and economically balanced neighborhoods.

Title IV of the Housing and Urban Development Act of 1968 authorized the HUD Secretary to guarantee bonds and notes of developers in amounts up to $50 million per community.

IN 1970 Congress passed the Urban Growth and New Community Development Act, which allowed HUD to set up the New Community Development Corporation. That law also permitted HUD to expand the loan guarantees, extend the repayment periods and provide direct grants for building a town's infrastructure.

In the beginning, optimism ran high. Privately developed new towns like Reston, Va., and Columbia, Md., were



PHOTO: STEVE MURRAY

already booming successes. There was hope that a federal program melding the private and public sectors would thrive.

But by the time President Reagan took office in 1981, only The Woodlands, outside Houston, was doing well.

St. Charles, Md., Maumelle, Ark., and Harbison, S.C., although limping along financially, were judged "socially and environmentally viable" and salvaged by HUD. This was accomplished mainly through refinancing deals, with HUD receiving partial cash repayments and future reimbursement promised through letters of credit. HUD sought to recover only an amount equal to what it would have recovered had it foreclosed on the properties.

The solution "avoided the stigma of foreclosure and removed any further onus of federal involvement," notes Albert Diehl, who was deputy general manager of the New Community Development Corporation.

Former corporation officials and developers agree that the communities' failure can be traced to poor judgment calls and the HUD staff's lack of real estate expertise. Diehl says HUD personnel told some developers they did not have enough land assembled and needed to acquire more, adding tremendously to costs. Developers were forced to submit to a lengthy and expensive approval process, which, at a minimum, ran 18 months and cost around $1 million. HUD overappraised land and delayed making direct grants until it was too late, because they believed that equity contributions or land sales proceeds would be enough to meet infrastructure costs.

"If HUD administrators had not run scared and had been more qualified, the new towns would not have suffered as they did," claims Lester Gross, executive director of the Harbison Group, developers of Harbison. He concedes, though, that there would have been difficulties anyway because of the 1974-75 and 1979-82 housing recessions.

Overemphasizing the loan guarantee as the primary vehicle to assist the developer and not giving grant assistance until "we were already in hot water" were major HUD failings, says Dowell Taylor, president of the Maumelle Land Development Corporation. And, he adds, a lack of flexibility in refinancing and restructuring when hard times hit was another HUD shortcoming: "The building and development business is not a straight-line projection."

In the view of Charles Stuart, vice president of Interstate General Corporation, developer of St. Charles, "It was a noble program but poorly conceived"—with an inexperienced HUD staff, a bad choice of developers in some instances and a tense HUD-developer relationship. In addition, HUD focused too heavily on social objectives and on what types of amenities a community would offer, Stuart says. Example: Shenandoah, Ga., built a "huge solar-heated ice skating rink for $5 million for 300 people." He adds that "the business of building a community is more technical and financial than social."

THERE WERE problems in addition to HUD's blunders, Diehl says, with a big stumbling block being lack of real support from local governments. "After the projects were approved, the attitude for the most part was, well, you're a federally assisted project, so go to Washington if you're lacking anything." Some local officials went so far as to attempt to halt any new-town development at all. Gross recalls that Harbison suffered such opposition.

Because of all these impediments, most of the communities did not start construction until 1972. They ran smack into the housing recession of 1974-75 and later into the real estate downturn and high interest rates of 1979-82. That doomed many of the projects, Diehl says. A project as big as a new community will usually have a negative cash flow for five or six years, but HUD "was projecting a positive cash flow before this time, and in some cases, as early as after one year," he says.

Did the program have any merits? Developers like Gross maintain that it "demonstrated that majorities and minorities can live together harmoniously and that it forced planners and managers to use better discipline and showed what innovative concepts communities could achieve in the planning, environmental and architectural areas."

Just what ensures a successful community? Edward Lee, president of the Woodlands Development Corporation, has a formula. "Location near a thriving large city in a growth corridor close to a major highway and airport, good management and sufficient resources

PHOTO: HOUSING AND URBAN DEVELOPMENT DEPARTMENT



Park Forest South was one of nine communities on which HUD foreclosed.

The New Towns: A Roster

These are the 13 communities that received both loan guarantees and direct grants under the Housing and Urban Development Department's new communities development program:

- Cedar Riverside, Minn.
- Flower Mound, Tex.
- Gananda, N.Y.
- Harbison, S.C.
- Jonathan, Minn.
- Maumelle, Ark.
- Newfields, Ohio (now called Sycamore Woods)
- Park Forest South, Ill.
- Riverton, N.Y.
- Shenandoah, Ga.
- Soul City, N.C.
- St. Charles, Md.
- The Woodlands, Tex.

Three communities that received only direct grant assistance:

- Roosevelt Island, N.Y.
- Radisson, N.Y.
- Park Central, Tex.

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to weather the economic storms and hang on for the investment return." The Woodlands, like privately developed Columbia and Reston, met all these criteria, and the other three survivors met most of them.

All four of the surviving developers have displayed solid management expertise. St. Charles' Stuart offers his philosophy: "A developer has to be an optimist, be goal- and action-oriented and have the ability to make things happen." And as a practitioner of astute management techniques, the developer should develop a "viable and workable master plan that is flexible enough to accommodate market changes and economic vagaries."

A plentiful capital supply is critical. The Woodlands was the only new town that had abundant money. Its developer, Mitchell Energy and Development, owner of extensive natural gas and oil holdings, has already pumped some $100 million into the community.

ANOTHER KEY to community survival, developers say, is the ability to attract commercial and industrial residents.

"Businesses want assurances that the community will not go under," Stuart explains, "so planned communities must build up a critical mass of people, residences, schools, churches and so on, to project stability. And the developer must lay good groundwork—be near accessible transportation routes, be able to point to community residents as an employe pool for almost every conceivable occupation, have a good tax base. One of the fallacies of the past was that industry would automatically stream to your door."

The Woodlands now houses 280 companies, including such giants as Texaco and Kraft. In St. Charles' business park, companies like C&P Telephone provide more than 900 full-time and 450 part-time jobs. All of Harbison's business occupants are major industrial companies like Monsanto.

Are planned communities still a viable option for housing future generations? Stuart sees as a deterrent the cost of acquiring enormous tracts that sit idle for years while only small sections are developed annually.

Diehl predicts a migration back toward the cities and the development of more "new towns in town." He says: "It's wiser to use the infrastructure that's already in place than to go to the expense of creating still more."

And there should be no more direct federal-private partnerships, developers emphasize. Instead, they say, the focus should be on state and local government involvement. If the federal government wants to participate, the developers say, let it do so by providing tax incentives. □

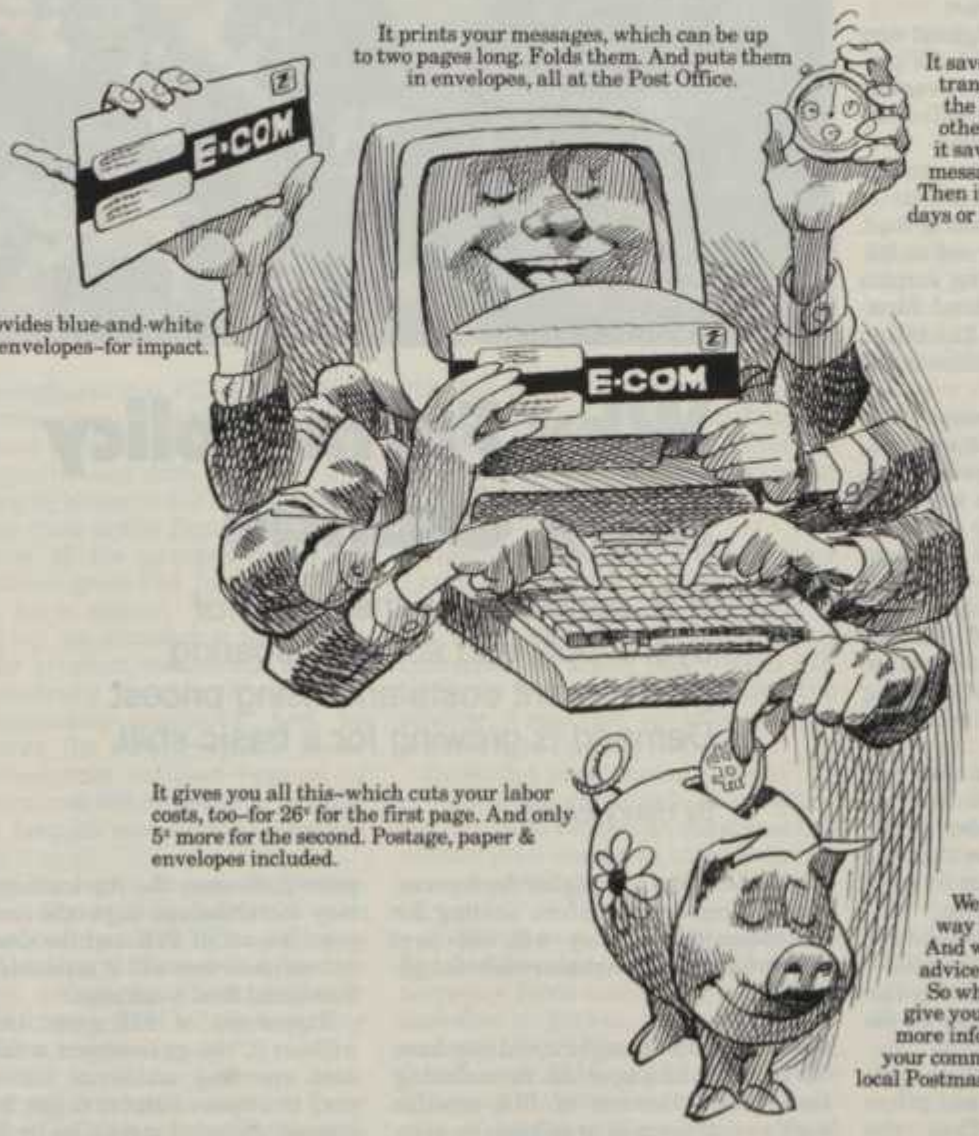
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PHOTOS: KEVIN HORAN



Why Farm Policy May Change

U.S. agriculture is the scene of oversupply and scarcity, soaring government costs and rising prices. Demand is growing for a basic shift.

By Henry Eason

GOVERNORS and members of Congress from nearly half the states met recently with Agriculture Secretary John Block. The most severe drought since the mid-1930s was searing crops in their states. They wanted to know what emergency relief, beyond that already available, the federal government planned.

The Secretary, getting an angry reaction, offered little hope that the administration would commit itself to additional farm programs. He noted that agricultural aid costs are one of the strongest pressures on a budget already nearly $200 billion in deficit.

At the same time, Block's department was preparing a report showing that farm prices in August had gone up 4.6 percent, the highest monthly increase in more than three years.

Those developments spotlighted serious problems besetting U.S. farm policy, involving a combination of oversupply and scarcity, accompanied by mounting government spending.

The oversupply resulted from steadily increasing farm output at a time of declining markets at home and abroad. Government programs designed to bolster farm income by absorbing surplus stocks came into play. Federal farm-support outlays soared from $2.7 billion in 1980 to an estimated $22 billion in the fiscal year just ended.

The scarcity, which is responsible for rising prices, resulted from the administration's deliberate plan to reduce surpluses by cutting production and from the unanticipated drought.

So the administration faces the worst of all worlds in farm policy—farm belt unhappiness over perceived federal insensitivity to drought-caused financial problems, runaway federal costs to support prices and the risk of growing consumer unhappiness as food prices climb.

The administration plan to curb production, adopted this year, is the Payment-in-Kind program, under which farmers idled 83 million acres that had been scheduled for production of corn, wheat, sorghum, cotton and rice.

To replace the crops they would have raised and sold—or sent into surplus—participating farmers are receiving surplus stocks. They can sell these on the open market.

Under PIK, nearly a third of corn-growing acreage was idled, and prices responded accordingly. Then the drought hit. It was particularly devastating to the already eroded corn crop and increased prices further.

As the prices of corn and other feed grains rise, the numbers of cattle and hogs sent to market have increased temporarily because pastures are dried up and growers prefer to reduce herd size rather than pay higher feed prices. Meat prices are therefore abating for the moment, but they will rise next year when fewer animals reach slaughterhouses.

THOUGH the drought could not have been anticipated in formulating farm policy, the role of PIK remains highly controversial in relation to overall cost and effectiveness of farm programs and to consumer prices.

Secretary Block says that "prices have already strengthened dramatically in response to a successful PIK program, where we did get a lot of acres out of production."

Noting that the drought has added to price pressures, the Agriculture Secretary nevertheless says the combined price impact of PIK and the drought is not serious—nor will it seriously imperil national food stockpiles.

Supporters of PIK point out that, without it, the government would have been spending additional billions this year to acquire surplus crops, but it is, instead, reducing stockpiles by drawing on them for the payments in kind to farmers.

Without PIK, says Brad Hoffhind, Wayne County, Iowa, Agricultural Extension Service director, corn growers would be in "terrible straits."

Everett Rank, PIK program administrator for the Agriculture Department,



PHOTOS: DAVID R. FRAZIER

arcity of feed grains because of
ought and land set-asides has
to price hikes, with bidding
the Chicago Board of Trade
ft) and elsewhere becoming
re competitive.



Wheat oversupply problems continue, with surpluses piled high in Boardman, Ore., (above) and other parts of the nation. Livestock raisers' reaction to feed-grain costs is expected to send meat prices up next year.

notes complaints that PIK is benefiting some crop growers, while driving up feed-grain costs for producers of livestock, poultry and dairy products, and is adding $9 billion to $12 billion to farm program costs in this fiscal year to cover prices of the government-owned commodities given PIK farmers.

But, Rank asserts, "PIK has done everything we intended it to do." He says the program will benefit agriculture generally by sharply reducing price-depressing surpluses. And, he says, even the farm suppliers whose businesses have suffered because of idled farmland will do better in the long run as farmers recover their financial footing.

American Farm Bureau Federation President Robert Delano offers a more cautious endorsement: "The PIK program has bought time—but it has not brought prosperity for agriculture. With PIK, we gained a little breathing space for a couple of years."

MICHAEL DURANDO, a senior Farm Bureau Federation official, says taxpayer costs probably would have been much higher if nothing had been done to stanch the unlimited production of the five crops covered by PIK.

Durando says that "$9 billion to $12 billion is a lot of money, and it will show up in the next fiscal year's budget. That's taxpayer money. But without PIK that amount would have been paid out in price supports, loan forfeitures, interest costs, storage costs, diversion payments and loss of market value of commodities the government had in storage."

There are dissenting voices. Former Agriculture Secretary Clifford Hardin, now with the Center for the Study of American Business, at Washington University, St. Louis, says: "While PIK holds the promise of some short-run benefits, it may turn out to be counterproductive in the long run."

He holds a view, shared by some other agriculture economists, that curtailing U.S. farm production could cost this country sales abroad as other countries expand production to offset U.S. cutbacks.

As things now stand, PIK appears to be basically a one-year, stopgap device. Secretary Block said during a televised interview on BizNet, the television network of the U.S. Chamber of Commerce, that there probably will be no feed-grain PIK program next year because stockpiles of feed grains are being reduced sufficiently. PIK will be continued for wheat, which was not affected by the drought as much as corn was.

Wheat acreage reductions of 18 percent under PIK, along with renewed sales to the Soviet Union, are cutting into supplies. But the weather has been favorable in wheat-growing regions, so overall production this season will drop only about 8 percent. Similarly modest supply shrinkages are expected in rice and sorghum. Cotton surpluses also have gone down.

Overall, it may never be possible to determine whether PIK or the drought was primarily responsible for the increase in feed-grain prices.

The Farm Bureau's Durando says PIK will have made a major contribution if it provides enough of "a shock to policymakers to show that we need to take a serious look at agriculture, to make it more market-oriented."

A SERIOUS LOOK is in the offing on Capitol Hill, where there is growing sentiment that farm support programs are out of hand. Next year Congress' agriculture committees begin rewriting the Agriculture and Food Act of 1981, the blanket law covering farm programs and policy, which expires in 1985. The process will see greater-than-ever demand for less government involvement and more market economics in the farm belt.

A preliminary test of congressional attitudes will come on the setting of target prices—also known as the guaranteed price level.

These are minimum commodity market prices set by law as adequate if farmers are to meet production costs. The government makes payments to farmers when national average market prices for their crops fall below the target price levels.

Levels are scheduled to go up in 1984 and 1985, but the U.S. Chamber of Commerce and the Farm Bureau, among other organizations, are urging they be held at 1983 levels to avoid intensifying federal cost problems.

These groups point out that Congress authorized the higher levels in anticipation of production cost increases that did not materialize.

The administration hopes Congress, in writing new farm policy, will sharply reduce crop subsidies and move toward a market-oriented economy in which U.S. crops will be price-competitive in world trade.

It is commonly accepted that elected officials must compete with each other to show support for farm belt voters, and the extent of federal largess is an important measure of that support.

But there is also growing sentiment among farmers as well as in Congress for the view that agricultural policy grounded in the early New Deal has run its course and that new approaches are essential.

They believe, in the words of Farm Bureau President Delano, that it is time to reduce what have become "government incentives to overproduce." □

WHAT HAPPENS TO CIGARETTE SMOKE IN THE AIR?

As soon as smoke leaves the smoker's mouth or the end of the cigarette, it is immediately diluted by the surrounding air.

But a subject on the minds of some researchers today is whether cigarette smoke in the air causes disease.

Analysis of the air in public places, where you would typically find smokers, shows again and again that nonsmokers are exposed to minimal amounts of tobacco smoke.

One study, conducted by scientists from a prominent school of public health and reported in the New England Journal of Medicine, found only small amounts



most asked questions about cigarettes.

of nicotine in the atmosphere of cocktail lounges, restaurants, bus stations and airline terminals.

Interpreting data from that study, an editorial which appeared in the same publication made this observation: in public places, nonsmokers could potentially consume the equivalent of just 1/1000 to 1/100 of one filter cigarette per hour.

Putting it another way: a nonsmoker might have to spend 100 hours straight in a smoky bar to inhale the equivalent of a single filter cigarette.

A nonsmoker might have to spend 100 hours straight in a smoky bar to inhale the equivalent of a single filter cigarette.

Other recent studies on the effects of cigarette smoke in the air report similar findings. For example, a noted German scientist wrote in 1982 that the question of whether ambient smoke may be injurious to health remains open, based on presently available research.

Even the U.S. Surgeon General, an outspoken critic of smoking, said in 1982 that the available evidence is not sufficient to conclude that other people's smoke causes disease in nonsmokers.

The fact is, no claim of adverse effect of cigarette smoke on a healthy nonsmoker has yet been proved.

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WEIGH BOTH SIDES BEFORE YOU TAKE SIDES.



PHOTOS: DAVID WALKER

Engineering A Bright Future

Edward Donley brings a passion for learning to an industrial firm that is meeting the challenge of high tech.

By Grover Heiman

IS THE DEMISE of "Smokestack America" imminent? Edward Donley, the lean, soft-spoken 62-year-old engineer who is chairman and chief executive officer of Air Products and Chemicals, Inc., doesn't think so.

His company is committed to research and development in high technology, but its primary activity is supplying industry with gases, chemicals and engineering services. He sees no possibility that his company's customers will quit the industrial arena any time soon.

"There is no question," he says, "that when the 21st century dawns, the United States will still be ahead of the rest of the world."

Donley believes that American engineers are the world's best and that the United States' data base in basic science is also the best. That combination, he says, can keep the nation ahead of the pack.

But, he says, "I don't know whether we will be able to retain that lead for the next 100 years." The gap is narrowing, he warns: "More engineers are being produced relative to the size of the population elsewhere, specifically in Japan and the Soviet Union, than in this country."

Donley is a highly active advocate of improved engineering education and opportunities. He is thinking of the nation's future—and also of the future of Air Products, which had $1.6 billion in sales in 1982. The firm, based in Allentown, Pa., has 18,000 employes and facilities in 15 countries.

Air Products had only 17 employes and a small Detroit plant in 1943, when Donley went to work part time for 40 cents an hour. He was in his senior year at Lawrence Institute of Technology in nearby Southfield.

When Donley graduated as a mechanical engineer and went to work for Air Products full time, it was at a critical point in World War II. American bombers were beginning to pound Nazi targets in Europe. Flying at high altitudes, the crews of B-17s and B-24s needed life-sustaining oxygen. During the war Air Products built 240 portable plants to produce oxygen for the United States and its allies.

Donley signed on with Air Products as it was beginning a period of enormous growth, fueled by defense contracts. By the end of the war the company's work force had swollen to 3,500, and Donley, as chief engineer, had 250 engineers working under him. "It was a tremendous learning experience for me," he says.

Learning has always been a passion with Donley. He denies that he is a workaholic, but he does admit to being a bookaholic. "I'm not addicted to work," he says. "I enjoy what I am doing, but it's not compulsive. But Inez, my wife, says I can't stand passing a bookstore or a library without going in, and she's right."

Much of Ed Donley's early reading was by the flicker of a kerosene lamp. He was born in 1921 in the Detroit suburb of Highland Park and lived there until he was 10. But as the Depression hit, his father's automobile engine valve manufacturing business tottered. The elder Donley sold out and moved to the 250-acre family farm in Richmond, Mich., homesteaded by earlier Donleys in the 1840s. Young Ed Donley found himself working at farm chores from dawn to dusk when he wasn't in school. The farm lacked electricity and other city comforts.

"I don't watch much television," he says, "and maybe that's because I

didn't listen to much radio when I was younger. If we wanted to hear radio, we would go over and visit a farmhouse a couple of miles away."

By the time Donley reached high school, he had decided to become an engineer. He won a scholarship to Lawrence Tech, supporting himself by working at various jobs at a Sears, Roebuck store and, in his senior year, by tutoring freshmen.

AT LAWRENCE, Donley met a local entrepreneur named Leonard P. Pool, who came to the campus frequently to recruit promising engineering talent for his struggling firm, Air Products. Pool had founded the firm in 1940, convinced that the steel industry would need vast amounts of oxygen for its furnaces.

In those days oxygen was delivered to steelmakers in 120-pound steel cylinders, each holding 8 pounds of the compressed gas. Pool's idea was to build oxygen plants next to the steel plants and pipe the oxygen to the furnaces, thus eliminating the cumbersome and costly transportation system.

Air Products sold its first plant to a steel company in 1941 and a second to the Norfolk Navy Yard. But sales weren't booming when Pool returned to the Lawrence campus and looked up Ed Donley three months after their first meeting. Pool offered Donley a part-time job as a draftsman, at 40 cents an hour, telling him he would "learn more than you will by teaching these kids."

Each day, after his 3 o'clock class, Donley went to the small Air Products plant, which had three engineers, and worked as an engineering draftsman until late at night. He quickly decided that he had stumbled into an exciting new field. Pool sensed he had found something valuable, too, and at the end of the first week he said, "I think we'd better give you a raise to 70 cents an hour."

When the Army Air Forces gave Air Products a contract to build portable oxygen generators, the firm's prospects improved dramatically. In 1943, soon after Donley joined the company full time, Air Products moved to a surplus tank manufacturing plant in Chattanooga that was supplied by the government.

When the war ended, Air Products didn't have much in the way of retained profits because it had worked under low-profit government contracts. But it had acquired the technology it needed to go after the steel industry. Weirton Steel was the first customer, signing a contract in 1945, and others soon followed.

In 1946 Leonard Pool took his company public and moved it to the Allentown area. Progress was slow but steady, with Ed Donley a major participant in the company's growth. He worked in all aspects of the operation, including administration.

Ronald Barclay, now Air Products' vice president and treasurer, recalls when Ed Donley was head of process equipment sales in the 1950s. "He was a low-key but really effective salesman," Barclay says. "He was a master of understatement, never promising more than Air Products could deliver. He was recognized for his sincerity, and his word was trusted."

Donley says, "I always thought that the best way to sell was to sell on the technological merits of the products."

In the 1950s the company expanded overseas, went into chemicals (it changed its name from Air Products to Air Products and Chemicals in 1961) and then into engineering services.

But Air Products took its biggest step forward in that decade as a result of the United States' decisions to enter the intercontinental ballistic missile era and push ahead with the exploration of space. The company built 13 liquid oxygen plants to supply the missile and space programs, and in 1959 it designed, built and operated the first large-tonnage liquid hydrogen plant. Fuel produced by Air Products propels men into space every time the space shuttle makes a voyage.

As the company grew, Ed Donley grew along with it, becoming a skilled professional manager. But there was always the shadow of Leonard Pool, the chairman and CEO.

"Pool was a one-man-band type of entrepreneur," says Barclay. "Very authoritative in style. Totally unlike Donley, who encourages people to be innovative in their jobs. People don't live in fear of him. If you pursue an idea and it doesn't work out, you aren't sacked."

Donley was named president in 1966, emerging as the heir apparent, and was named CEO in 1973.

REFLECTING ON his career, Donley says, "I never really had a career plan. I just did each day what seemed like the important thing to do that day, and my career unfolded."

Yet he recognizes that, with Air Products now such a large company, later generations of executives will not have the vast opportunity for seasoning and experience that he has had.

Now, he says, "we create an atmosphere for career planning. When new people come in, we tell them they have the responsibility to personally plan their careers and tell us what they want to do. We think that if they do what they believe will be to their best advantage, it will be to the best advantage of the company.

"The program is very effective. Normally, chemical companies retain 50 percent of their young professionals after five years. We retain 70 percent."

Air Products and Chemicals has felt changes—going from an inside to an outside board, for example, to draw on a broader range of experience—since Donley became president. The style of management has changed, too. "Pool made a lot of decisions on intuition," Donley says. "My intuition is not as acute, so I depend less on intuition than he did. I would rather hear conflicting views, so I try to draw out differences



Edward Donley, who started at Air Products as an engineer, is at ease talking about technical details with Art Farrell, one of the firm's plant managers.

of opinion and analyze and weigh them."

P.L. Thibaut Brian, vice president for engineering, observes: "He has a high degree of intellectual curiosity, likes to take things apart, to understand all the nuances. He works hard to get a consensus, but he is willing to overrule."

Donley (who is, one associate says, too logical to become emotional) asks a lot of hard questions and encourages debate. He likes to have each line executive make the decision if it affects only the executive's area; when two executives are involved, Donley makes the decision. "We have a management committee, but it is advisory," he says. "We don't have management by committee, we have debate by committee. Our management style is participatory and is arms around rather than hands on."



Beth Moore and Bob Wolff, two young professionals, are not surprised to see Donley at Air Products' research center.

His company benefits hugely, Donley believes, from this style of management and from Air Products' growing emphasis on high-tech research and development. Some 800 engineers work in a campus-like atmosphere at Air Products' research facility, which is located, with the headquarters, a few miles west of Allentown.

Donley sees the potential of solid-state physics and biochemistry for new products, and of the computer age for engineering.

Air Products, he says, is in the forefront of computer-aided design and computer-aided manufacturing techniques. "One man can do as much in design in one hour as hundreds of men used to do in 20 hours," he says. "I believe the United States is equal to or ahead of other nations in this field. The only nation that can even challenge us is Japan."

For all of the new emphasis on high technology, Air Products remains basically unchanged. Donley sees the company continuing as essentially a provider of industrial gases, chemicals, and design and construction services. Industrial gases like oxygen, hydrogen, helium, carbon dioxide and nitrogen will remain the staples.

As Ed Donley contemplates the past and the future of his company, his thoughts inevitably turn to the quality of engineering education. He believes that one answer to better education is a closer relationship between industry and the academic community. He is a member of the Business Higher Education Forum, an organization of business CEOs that communicates with the academic community on the needs of higher education.

FOUR YEARS AGO Air Products and Dow Chemical founded the Chemical Council on Research. In 1982 the council distributed $8 million—contributed by chemical companies—directly to university chemistry and chemical engineering departments.

Donley, whose father was a schoolteacher before becoming a businessman, is chairman of the board of members of the corporation of Lawrence Tech (the school's governing body) and serves on the board of overseers of the college of engineering of the University of Pennsylvania and on Carnegie-Mellon University's board of trustees.

"If you could lift yourself to the 1990s," he says, "I predict we will say the product of higher education in the United States then is far better educated than the product of the 1980s, particularly in the use of communications and the use of the computer."

Donley will reach Air Products' normal retirement age of 65 on Nov. 26, 1986, and he plans to step down. Continuity, he says, is assured. "If the vice chairman, the president and I were to be run over by the proverbial beer truck," he says, "this company would move right along without a wrinkle showing."

Retirement will bring Donley more time for his outside pursuits. Recreation for the Donleys, who have two grown sons and a daughter, is usually weekends at a second home on a lake in the Poconos, where he skippers a Sailfish-class sailboat and "fusses around and reads."

He recently acquired golf clubs and started taking lessons, but he intends to keeps up a 23-year tradition of jogging 1½ miles every morning, Monday through Friday.

Donley plans to remain an Air Products director until he is 70—a privilege accorded former chairmen—and to remain active in education and national affairs. A former chairman of the Chemical Manufacturers Association, he is a member of the Conference Board and a director of the U.S. Chamber of Commerce.

A joke he likes to tell reinforces the thinking of his associates that Donley has no thoughts of slowing down in retirement.

"A gang of terrorists," he says, "captured three businessmen—a Frenchman, an American and a Japanese. They announced they were going to shoot them but would grant each a last wish. The Frenchman was called first. He asked to hear the 'Marseillaise' once more. They played it for him and then shot him. Next called was the Japanese, who said he would like to have a few minutes to talk about Japanese productivity. But the American objected. 'Shoot me next,' he begged. 'I can't stand to hear that one more time.' "

Before he is through, Ed Donley would like to have American productivity and quality regain pre-eminence in the world. □

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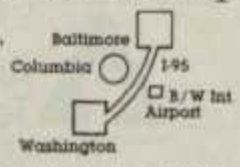
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PANAMA







A major shipping crossroad of the world, Panama deftly blends a rich and varied culture that is modern but reaches back to the voyages of Columbus. Colorful carnivals glow with traditional costumes from the republic's Spanish colonial days, but the nation's brightest jewel is the busy 68-year-old Panama Canal.

PANAMA, a nation of 2 million on the strategic isthmus linking the two American continents, has a long history of government and social stability. The nation has a very favorable business climate and is aggressively promoting industrial development and foreign investment.

Panama is not heavily dependent on any single commodity for its export earnings. Major exports are bananas, sugar, shrimp, clothing, coffee and meat, but Panama derives more foreign income from its service exports, such as toll revenues from the Panama Canal, than exports of goods.

The most rapidly growing economic sectors recently have been banking and finance, and construction.

Panama has emerged as a major financial center of Latin America with more than 130 banks representing some 30 countries. Panama is also rapidly emerging as a center for insurance and reinsurance operations. More than 34 insurance companies operate in Panama, a third of which are foreign-owned. There are also more than 20 reinsurance companies, the majority of which are foreign-owned.

Discovered by Rodrigo de Bastidas in 1501, Panama's major natural resources are its forests, abundant rainfall (making possible extensive use of hydroelectric power), marine life, grasslands and its central location in the Americas. It also has one of the world's largest deposits of copper, not yet developed, and coal deposits.

Panama's primary agricultural products are bananas, beans, coffee, corn, potatoes, rice, sugar and tobacco. Bananas and sugar are major export crops, with bananas accounting for 28 percent of the total non-oil export value in 1982. Exports of ocean products—shrimp, fish, lobster, fishmeal and oil—are a significant portion of Panama's economy. Shrimp is the third largest Panamanian export.

Most of Panama's manufacturing is oriented to the domestic market, particularly food, beverages and tobacco, which account for 50 percent of manufacturing output. Textiles, apparel and leather goods account for another 10 percent. Chemicals and plastic products have been growing at a higher than average rate and now represent 10 percent of manufacturing output.

Under the recently approved Caribbean Basin Initiative, companies that assemble or manufacture certain products in Panama will receive exemptions from U.S. quotas and duties. There seem to be no major obstacles to designating Panama a CBI country. □

Strong Incentives for Manufacturers



Wide supertankers cannot transit the Panama Canal, but a trans-isthmus pipeline solved the problem.

THE REPUBLIC OF PANAMA is actively seeking foreign investment and has taken aggressive steps to make the country attractive to foreign manufacturing operations. It has developed several programs that create strong incentives for the foreign investor and reduce the administrative burden of setting up operations in the country.

It is the policy of the government to offer a variety of facilities and incentives for the development of international and commercial activities.

- There are no requirements for the registration of capital and there is no tax on transferring money into Panama.
- There are no mechanisms to control the repatriation of capital or retained earnings.
- There are no industries that the private sector cannot participate in, and there are no restrictions on foreign ownership.
- Citizens of Panama and foreigners are viewed as equals under the Panamanian Constitution.
- There are no restrictions on mergers or acquisitions and there are no governmental regulations that prohibit a foreign firm from acquiring a local enterprise.

Panama does not restrict foreign ownership; in fact, its laws do not distinguish between foreign and national ownership. In addition, both the government and the public have a positive attitude toward business.

Many Panamanian investors are looking for assistance in promoting labor-intensive light manufacturing and assembly industries for export to the United States. They are seeking partnerships with U.S. investors who already possess market intelligence. Many attractive investment projects also exist in agriculture and agroindustry like cattle ranching, citrus and other fruit, and seafood.

Fiscal incentives. Panama has gone to great lengths to establish a business structure that best uses its comparative advantages. To invest in Panama, the industrialist typically signs a contract with the government through the Ministry of Commerce and Industries. In his contract the investor agrees to carry out a project within the specific period covered by the contract. These contracts typically run for 10 to 15 years and can be renewed.

The government then provides the investor with an exemption of all import duties on the importation of machinery, raw materials, production equipment and spare parts. It exempts the investor from taxes on profits from export and from income taxes reinvested in fixed assets. It also permits the investor a special equipment depreciation rate.

Even if the firm is not export-oriented, its profits are totally free from income taxes during the first five years and partially exempt during the following three years if it locates in one of the designated development districts.

Additionally, a Certificate of Tributary Payment has been created to benefit the exporters of nontraditional products that are manufactured wholly or partially in Panama. A CAT's value is equal to 20 percent of the value added to exported goods, and it can be used to pay national taxes and import duties where applicable. To qualify for CATs, export products must have a minimum national content of 20 percent in the manufacturing cost and must have a national value added of at least 20 percent. If the goods are produced outside the metropolitan areas, the minimum national content of the total production cost need only be 10 percent.

U.S. dollar. In Panama, the U.S. dollar circulates freely as the medium of exchange. The balboa, Panama's unit of currency, is exactly equivalent to the U.S. dollar; however, since Panama does not issue any paper currency, U.S. bills are used and there are no exchange controls. The country does mint its own coinage.

The risk of sudden fluctuation in the exchange rate of the host country currency is eliminated, U.S. businessmen in Panama point out. Companies can concentrate on their operations without regard to currency revaluation problems, and Panama now has one of the lowest rates of inflation in Latin America.

Banking center. Most of the 130 banks in Panama are branches of major international banks. More than 60 of these banks have general licenses to do business in and outside Panama. Credit is essentially demand-determined since huge Eurocurrency sources can be drawn on as needed. In 1982 these banks had total assets of $49 billion.

Apart from excellent correspondent relationships with major U.S. banks, Panama has no minimum size or any other restrictions on offshore transactions. As there is no direct government regulation of banking and no requirement to establish exchange rates, Panama does not have a central bank.

Industrial sites. Panama offers a wide variety of fully and partially developed industrial sites located throughout the country. Industrial parks with fully developed roads and utility services are available in cities like Colon, Chitre and David. The industrial park of the Colon Free Trade Zone combines assembly and manufacturing facilities with access to the largest trade and distribution center of Latin America. There are also numerous private industrial sites available.

Trade zone. Since its establishment in 1948, the Colon Free Trade Zone has become the world's second largest foreign trade zone, second only to Hong Kong. Approximately 520 businesses engaged in international and hemispheric marketing use the zone for manufacturing, assembling, disassembling, mounting, warehousing, redistribution and packaging. These firms employ approximately 11,000 workers. More than 250 United States firms and 23 international banks are operating in the Colon Free Trade Zone.

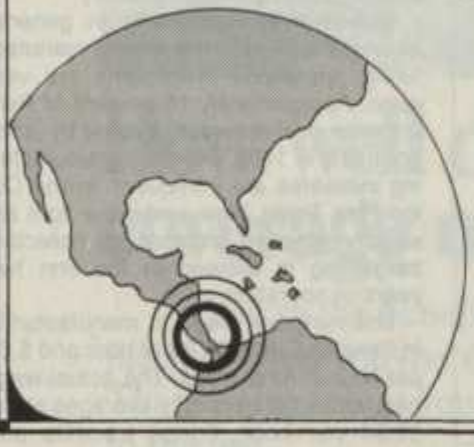
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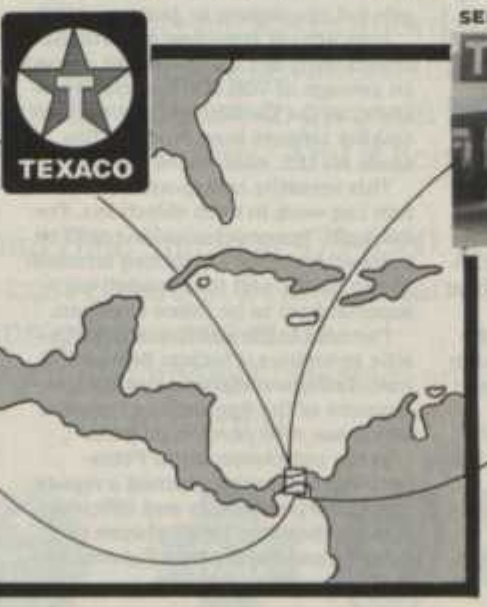


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In the first six months of this year, 121 million barrels of Alaskan crude oil swiftly crossed the Isthmus of Panama on their way to oil refineries on the Gulf and Atlantic coasts of the United States.

The oil was not transported in the hulls of smaller tankers, but through a 136-kilometer-long pipeline that threads its way across tropical forests and over the mountains of western Panama. The Pacific port terminal is on Charco Azul Bay; the Caribbean one is at Rambala, in the province of Bocas del Toro.

Petroterminal's $350 million pipeline and port complexes officially began full operations in January, 1983.

Typically, at least one supertanker arrives daily at Charco Azul to offload an average of 708,000 barrels. Meanwhile, at the Caribbean terminal two smaller tankers load Prudhoe Bay crude for U.S. customers.

This versatile transportation system can work in both directions. For example, Venezuelan crude could be pumped from the Caribbean terminal to the Pacific and then loaded on supertankers to be taken to Japan.

Partners in the venture are Northville Industries, Chicago Bridge and Iron, Tellepsen Wallace and the government of the Republic of Panama, which has a 40 percent interest.

In the petroleum world Petroterminal has rapidly earned a reputation for dependability and efficiency. It is another vital link between the Atlantic and Pacific that Panama provides to world commerce.

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capital or the payment of dividends abroad; and daily express airfreight and shipping services to major cities and ports throughout the world.

Human resources. Panama's population is 50 percent urban, with much of the urban population concentrated in the corridor near the Panama Canal. Adult literacy is a relatively high 83 percent, and a significant portion of the urban population is familiar with English.

An abundant supply of labor is readily available. Vocational education programs are addressing the problem of providing enough skilled labor to meet expected demand from industry.

Labor-management. In general, labor-management relations in manufacturing operations in Panama are very good. Approximately 15 percent of Panamanian workers were covered by union contracts in 1982. Strikes in manufacturing industries are infrequent. In the Colon Free Trade Zone under the light assembly incentive program, no collective bargaining is allowed in the first two years of operation.

The minimum wage in manufacturing in Panama City is $.79 per hour and $.69 per hour in rural areas. The actual wage paid varies but generally averages about $1.50 per hour. Fringe benefits add about 45 percent to the wage bill.

Investment Council. The Investment Council of Panama, directed by a board of prominent businessmen and high government officials, has two basic functions: to attract investors to Panama, and to consolidate the requirements to invest and do business in Panama into a "one-stop" operation where the potential investor only need visit the Investment Council to process all required paper work.

An Office of Investment Services established by the council offers assistance and service to the investor to reduce investment costs. A multilingual staff helps the investor in the processing of documents, provides installation and infrastructure assistance, guides in seeking out legal advice, assists with the hiring and training of Panamanian labor and offers advice with respect to investment financing.

Inquires should be addressed to:

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Text and photos for this advertising section were provided by the American Chamber of Commerce and Industry of Panama, P.O. Box 168, Estafeta Balboa, Panamá, República de Panamá. Phone: 69-3881. Telex: 2283.

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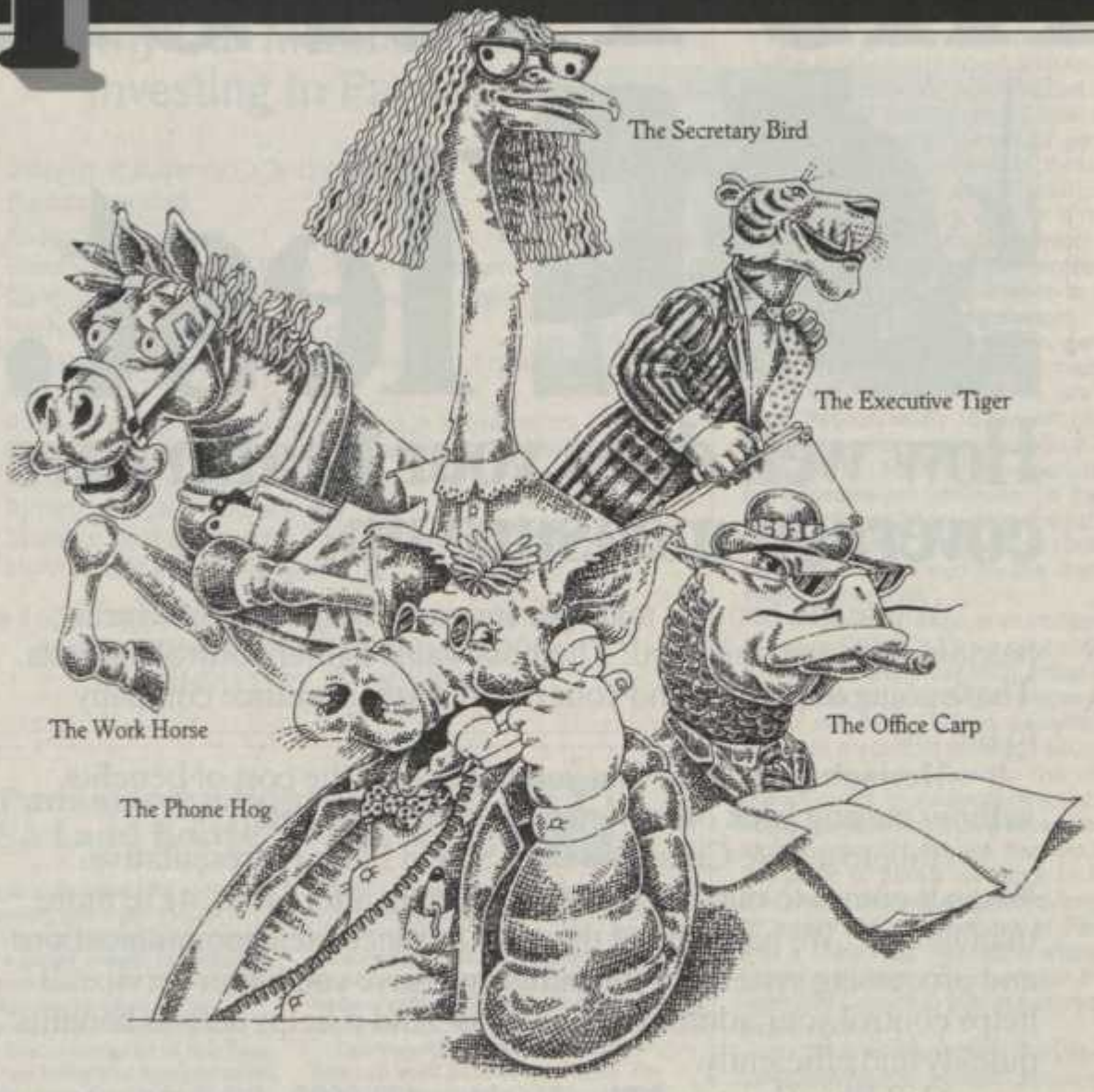
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WASH/E/12

SPECIAL REPORT

Turmoil in Trucking

Recession, increased competition and higher taxes left an industry reeling. Now it is fighting back.

By Bob Gatty



THE HUGE TRUCK lumbers onto Interstate 95 from the inspection station just south of Washington. The driver begins his gear changes, settles down at 55 and continues the run north.

Motorists flash past. They think little about what that truck symbolizes—a vital industry, struggling to ride a wave of new technology into a prosperous future for carriers, shippers and consumers alike.

The high cost of fuel, increasing competition and the recession have weakened the nation's commercial trucking industry and forced it to look for every conceivable way to reduce overhead. Freight volume has been declining. During the first quarter of this year, carriers surveyed by the American Trucking Associations transported 23.6 million tons of freight—down from 26.3 million in the same period last year. The 1982 figure, in turn, was down almost 7 million tons from the first quarter of 1981.

On the bright side, truck manufacturers are developing a new generation of supertrucks—more fuel-efficient, streamlined, able to pull a bigger payload at less cost. They, too, were stung by the recession as freight volume decreased and the demand for new vehicles declined.

The recession came just as the Motor Carrier Act of 1980 took effect, reducing regulation of carriers and making it easier for new trucking companies to get into the business.

"It was similar to letting too many sheep into the pasture," says Ross C. Gaussoin, president of Silver Eagle Company, of Portland, Ore., and ATA board chairman. "Pretty soon you run out of grass."

Trucking executives complained that the Interstate Commerce Commission was interpreting the Motor Carrier Act much more broadly than Congress intended. They predicted severe economic stress in the industry, a forecast that the recession helped make a reality.

Then Congress approved the Surface Transportation Assistance Act of 1982, primarily to raise money for highway repairs and mass transportation. That meant significantly higher taxes for truckers.

As these economic pressures mounted, many motor carrier companies decided to close their doors. But there was a catch—a pension law that made it simply too expensive to go broke.

Now the industry is fighting back—warning against further deregulation, combating efforts to raise truck taxes at the state level and urging Congress to rescind the new heavy-vehicle use taxes and replace them with a pay-as-you-go plan. Companies are using new technology to cut costs and improve service.

PHOTO: DAVID BARNES



Ross Gaussoin likens trucking deregulation to "letting too many sheep into the pasture.... Soon you run out of grass."

But more deregulation may be on the horizon.

The Transportation Department has prepared legislation, backed by ICC Chairman Reese Taylor, that would all but eliminate the ICC and end regulation of the trucking industry. So far the bill has been sidetracked by the White House, apparently because of opposition from the industry and the International Brotherhood of Teamsters.

Ernest S. Cox, president of Moss Trucking Company, of Charlotte, N.C., contends that the deregulation already brought about by the Motor Carrier Act and subsequent ICC actions is "working like the black plague."

Increased competition, coupled with the recession, has caused more than 300 trucking companies "to either go out of business or face severe financial difficulties," according to Cox, who adds that those firms represent more than $2.8 billion in revenues and nearly 56,000 jobs.

He points out that in 1979 there were 17,500 interstate carriers. At the end of last year, that number had grown to 25,700, despite the recession.

Cox charges the ICC has disregarded requirements that it determine whether a carrier is "fit, willing and able" when the agency grants new operating authority.

However, a group of major trade associations and large shippers has urged President Reagan to back complete deregulation of the industry. A letter signed by the organizations contends that productivity in the industry will improve, fuel conservation will increase, and increased competition will help keep transportation costs down, thus helping the economy.

George R. Green, assistant general counsel at the Food Marketing Institute, which represents retail food companies, argues that increased competition has helped control freight rates and that complete deregulation will do more of the same.

Even without further congressional action, another step toward deregulation is coming. The Motor Carrier Act requires elimination by July 1, 1984, of single-line collective rate making—the practice of companies' getting together in rate bureaus to set uniform charges for hauling products from one point to another in a single company's trucks. Other rates, however, may still be set collectively under the act after that date. Green and other proponents of deregulation argue that all collective rate making should be banned.

"Certainly, supermarkets can't fix prices," says Green. "Why should the trucking industry be allowed to?"

Such a view, says Silver Eagle's Gaussoin, is shortsighted. He acknowl-

PHOTO: DAVID R. FRAZIER



Some states used to ban twin trailers, but now all must allow them. And triple trailers are permitted in a few states.

edges that increased competition has spurred rate cutting. But practices like below-cost pricing, he warns, will lead to increased concentration in the industry as the weaker companies fold. He predicts that within two years there will be less competition than before the 1980 law was passed.

"Right now it's a buyer's market," says Gaussoin. "But as soon as this subsides, transportation will be priced at more realistic levels."

Moreover, Gaussoin contends that as customers are gaining increased power to negotiate rates because of deregulation, firms with volume shipments are getting reduced rates while those with less volume—generally smaller companies—are paying more.

At Silver Eagle, for example, Gaussoin says the small shipment price has increased 70 percent over the last three years to compensate for discounts of up to 30 percent on volume traffic.

"Profit margins are very thin," Gaussoin says. "The industry has simply drained out its profits fighting for market share."

Lana R. Batts, managing director of ATA's research and policy analysis division, says that in 1982 the industry's profit margin was only ½ of 1 percent of total revenues. In the fourth quarter of last year, 6 of 10 carriers reported operating losses.

Profit margins for manufacturers dropped 35 percent from 1978 through 1982, but margins for motor carriers plummeted 83 percent. "I'll give you 35 percent as being caused by the recession if you'll give me the rest as being caused because of deregulation," Batts says. Motor carriers' average return on equity in 1981 was 11 percent; in 1982 it dropped to 2 percent. The historic average, Batts says, is about 15 percent.

On the day single-line collective rate making expires, increased heavy-vehicle use taxes will kick in. Besides the 5-cents-per-gallon hike in fuel tax that all motorists paid beginning April 1, heavy trucks will also pay higher taxes for using the federal highways.

Before the Surface Transportation Assistance Act took effect, the levy for a vehicle with an 80,000-pound registered gross weight was $240. It will go to $1,600 in 1984 and $1,900 in 1988. When other tax increases are added in, the taxes on a typical five-axle tractor-semitrailer will increase from the current $1,746 to $4,249 in July, 1988.

Many shippers, including FMI member companies, are backing legislation proposed by ATA to replace the heavy-vehicle use tax with an added diesel fuel levy of 5 cents per gallon. They argue that trucks driven the most should be taxed the most. The Transportation Department has offered an alternative: cut the vehicle use tax in half and increase the diesel fuel tax by 5 cents.

"A horrendous idea," says FMI's Green.

Batts says the Surface Transportation Assistance Act has caused further problems because it provides funds for the states—but on a matching basis, meaning that states are increasing taxes to come up with their share.



THANKS TO another recently enacted law, many trucking companies that want to close face a financial penalty that makes it impossible, short of declaring bankruptcy. The culprit: the Multi-Employer Pension Plan Amendments Act of 1980, which imposes a substantial liability on any employer that attempts to withdraw from a multiemployer plan. Such plans are common in the trucking industry.

Under the law, employers are made responsible, by being assessed a prorated share of the plan's total unfunded vested obligations, for pension benefits promised but not yet funded. In many cases, according to Bennett C. Whitlock, Jr., ATA president, those obligations can exceed a carrier's net worth.

To make matters worse, Whitlock says, trucking companies that remain in business will find it increasingly difficult to obtain credit because of this potential liability. The law, he says, is "a grave threat" to the industry.

The Surface Transportation Assistance Act did, however, give truckers and shippers something both very much wanted—authority to run twin trailers and wider and heavier trucks on interstate and other highways designated by the federal government.

Until the act was passed, each state established its own trucking regulations. Missouri, Illinois and Arkansas banned trucks heavier than 36.6 tons, preventing many transcontinental shipments of 40-ton freightloads. States can no longer bar trucks below 40 tons on federally designated highways.

Before the law, most states restricted widths to 96 inches, and many Eastern states banned twin-trailer combinations. Now states must allow trailers up to 102 inches wide, as well as the twins. (In a few Western states, triple trailers are permitted under special permits.) ATA is aggressively seeking to convince critics that the bigger trucks are safe, and Gaussoin argues that major benefits are in store for shippers.

Two trailers pulled in combination can provide about 8 feet more loading space than the largest single trailer, he notes. In addition, Gaussoin says, a single 28-foot semitrailer—the kind used in twin combinations—makes an excellent delivery unit. Thus, he points out, shipments can be delivered directly without having to be unloaded from big single-trailer trucks and then reloaded into smaller delivery vehicles. "That saves a terminal transfer a good share of the time," he says.

The added width that the act allows means trailers will be able to handle 8-foot shipping units, like two 4-foot pallets placed side by side. FMI's Green points out this means that nearly twice as many pallets of groceries can be loaded into a single trailer than could be handled before. Trailers only 96 inches wide in exterior dimension were about 4 inches too narrow inside to handle side-by-side pallet loading.

Gaussoin contends that the

Sales of heavy-duty trucks dropped from 165,000 in 1979 to 70,000 last year. There has been some improvement recently.



PHOTO: DAVID WILLEY

wider trailers will also be more stable, thus reducing spills, and will provide more room for tire clearance, chains and brake cooling.

ATA has joined with the Motor Vehicle Manufacturers Association and others, including trailer and component manufacturers and the Teamsters union, in the Trucking Industry Alliance, which is developing a coordinated program to improve the industry's image among the public and lawmakers.

A detailed booklet, published by ATA, takes issue with the government's assessment of highway damage caused by heavy trucks. The booklet contends that research studies have shown that water and weather are the real culprits, and it says that highways barred to trucks often wear out just as fast as those with heavy truck traffic.

Peter Griskivich, an MVMA vice president who heads the group's motor truck manufacturing division, notes that if there is a public perception of discourteous drivers, speeding trucks and serious accidents involving trucks, legislative gains like the law authorizing twin trailers can be wiped out. State legislators, reacting to public pressure, can always impose restrictions on the use of twins on access roads or come up with other "unreasonable requirements," he notes.



ELEVEN WESTERN STATES and two Canadian provinces have organized the Commercial Vehicle Safety Alliance in cooperation with the federal government and the industry. In those states and provinces, roadside inspections are standardized, with inspectors focusing on 10 factors most responsible for accidents. The inspections are fast, and a vehicle that passes gets a windshield sticker, recognized by participating states, that exempts the vehicle from inspections for 90 days.

Preston Trucking Company, of Preston, Md., is recognized as a leader in efforts to improve safety and develop new and more efficient methods of operation.

The firm has been testing a computer-controlled device, called the "radar brake," which can "see" down the road hundreds of yards and warn the driver of an unseen obstruction. The radar sensor, mounted on the front bumper, sends a signal to the cab, alerting the driver.

Will Potter, Preston's president, says the device has proven so successful that it will be installed on all of the firm's 600 line-haul tractors as soon as the manufacturer can make it available.

Preston also has redesigned one of its tractors to make it more fuel-efficient. Potter says the vehicle, which he calls the "Batmobile," has won two diesel mileage contests, recording 7.3 and 7.9 miles per gallon—compared with the average of about 5.8 mpg for the rest of the Preston fleet. Modifications, to reduce wind resistance, included lowering the hood, narrowing the front of the vehicle and enlarging the air shield.

"We wanted to say to every one of our over-the-road drivers and to our suppliers that fuel economy is one of our top priorities," declares Potter. He adds that tractors to be purchased will be tested against the Batmobile and that similar modifications will be made on the company's existing fleet.

V.J. Adduci, president of MVMA, points out that years ago 4.5 mpg was the norm in the industry for an over-the-road tractor-trailer rig. That figure has been improved by about 33 percent, he says, adding that the improvement does not reflect new, even more efficient equipment that is becoming available. For example, one manufacturer recently introduced a tractor that achieved 7.7 mpg in fleet service. A tractor from another manufacturer posted 8.26 mpg on a coast-to-coast run.

Improvements involve modification

PHOTO: GARY KAEFER



Preston Trucking's "Batmobile," its front modified to reduce wind resistance, has won two contests for fuel efficiency.

of engines so they run with fewer revolutions per minute, devices to make engines run cooler, better aerodynamics and increased use of radial tires.

Adduci predicts that the truck of the future will be an aerodynamic tractor-trailer made of lightweight, high-strength materials, powered by a diesel engine using electronic controls to assure greatest fuel efficiency and minimum air pollution.

"An on-board computer will shift the transmission while an electronic instru-



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ment panel will monitor engine, drive train, vehicle and driver performance functions to provide optimum truck performance and durability," he says. "If you can keep fuel cost down, you can help control operating costs. The manufacturer has a major stake in that."

Manufacturers do, indeed, have a major stake in the financial condition of commercial truckers. John B. Curcio, president and chief operating officer of Mack Trucks, points out that sales of heavy-duty trucks dropped from 165,000 in 1979 to 70,000 in 1982. Moreover, during January and February of this year, Curcio notes, sales were 21 percent under 1982, with the industry producing at 25 percent of total plant capacity.

"We have at least 30 percent surplus truck capacity," observes Curcio, "all chasing after intercity truck tonnage that continues to decline and is nearly at a 20-year low.

"Railroads, especially piggyback service, have captured more of the existing intercity freight, and our customers continue to discount themselves to death, with no return on their investment and nothing left for truck replacement."



PHOTO: DEED R. FRAZER

In 11 Western states and two Canadian provinces, inspections now are standardized. This truck is being weighed in Idaho.

Adduci says, however, that as the economy has begun to rebound, heavy-duty truck sales have been "improving somewhat. We are still down 2 to 3 percent compared with last year because tonnage is still down."

Trucking industry executives believe that they have a lot to overcome. But as they look forward to the new generation of high-tech vehicles and to continued economic recovery, they intend to be prepared to serve the nation's shippers.

Says Larry W. Strawhorn, ATA's engineering department director: "Motor carriers are beginning to find their way out of the darkness. They are changing. They are trying to pull themselves out of chaos." □

What Way to Ship?

The answer varies from firm to firm.

As your firm's transportation needs change, it makes sense to take stock of the way products and merchandise are shipped.

Should you use a common carrier (essentially a trucking company that hires out to anybody for a price)? Or should you enter into a contract with a company that will dedicate equipment specifically to your needs? Or if you establish your own fleet, what about leasing equipment?

The basic consideration in determining whether to consider a contract carrier is volume of business, notes James C. Harkins, managing director of the traffic division at the American Trucking Associations and former manager of a fleet of trucks the Monsanto Corporation operates in New York City.

"There should be a cost analysis, looking at the amount of freight that is being moved on a consistent basis," he says. Another important factor, he adds, is your speed requirement: "Just how critical is timeliness of delivery?"

Harkins points out that many common carriers have contract options; other carriers are exclusively contract operators.

"The primary advantage of the contract carrier," he says, "is that you almost have your own trucking company, but you have a management force running it for you. Somebody else is taking the risks to make it a profitable operation." He cautions, however, that a contract carrier is not necessarily more economical; the primary advantage is faster, more tailored service.

Leasing of equipment for a private fleet is another option to consider.

Lawrence E. Weisheit, president of Transport International Pool, a Bala Cynwyd, Pa., over-the-road trailer renting and leasing company, points out that specialized leasing programs include full, standard and net maintenance leases for from one to 10 years.

"A lease can be tailored to reduce or eliminate entirely the lessee's maintenance and service responsibilities," says Weisheit. "From an administrative viewpoint, a lease can eliminate the need to maintain parts inventories and can remove concerns about the disposal of equipment and residual value."

Full maintenance leases cover specified equipment, licensing, substitute equipment when necessary, seasonal washes, scheduled preventive maintenance, replacement of parts like tires and brakes after normal wear and tear, tire repairs and 24-hour nationwide road service.

Standard maintenance leases are designed for the fleet operator who can handle emergency road service and pre-trip preventive maintenance. Equipment is provided to customer specifications, along with licensing, substitute equipment when needed, replacement of brakes and tires, and washes. A mileage allowance is built into the rate, with a charge for additional miles traveled.

The net lease allows the customer to take advantage of the equipment available for a short period. In such cases, the customer assumes full responsibility for operating and maintaining the trailers as well as for their return in a specified condition.

There are other options to consider as well, says Weisheit, such as one-way moves that can help a company solve periodic freight imbalances and adapt to peak need requirements. National agreements between leasing companies and customers with transcontinental operations often provide for special administrative and operating arrangements tailored to meet specific needs.

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The First Amendment guarantees the rights of free speech and freedom of the press which magazines and newspapers enjoy. But these constitutional rights are effectively denied to radio and television by federal regulations that govern the content of news broadcasts.

The "Fairness Doctrine," which embodies several regulations, is a good case in point. It looks good in theory since it proposes "equal opportunity" for and "reasonable access" to opposing viewpoints. In practice, it doesn't work. Stations often choose to remain silent on many important issues for fear of opening a Pandora's box of competing claims for airtime. The result is that viewpoints which could contribute to public knowledge and debate go unheard.

According to a recent Roper Poll, 82% of Americans now get their news primarily from the broadcast media. For this majority, the press **is** radio and TV. But these media are not protected by the First Amendment. Could this have been the intent of our founding fathers? We don't think so.

When the primary news source for a majority of citizens is denied its First Amendment rights, it's time we all become alarmed. At the Mutual Broadcasting System, we think it's time to give radio and television the same First Amendment protections that newspapers and magazines have enjoyed since 1791. Congress should repeal the so-called "Fairness Doctrine" in the name of fairness.

Mutual Broadcasting System

Choosing Up Sides Early

With the 1984 campaign well under way, labor and business are deciding who deserves their support.

IN TIMES PAST, the New Hampshire preferential primary in February of every presidential election year was the first gentle harbinger of a still-distant political campaign.

But here it is, five months before the New Hampshire primary, and six Democratic presidential candidates have already been on the campaign trail for half a year. They are berating President Reagan and often each other, jockeying for position in the early-early polls as the eyes of a bemused public glaze over.

One eye the six have been trying to catch is that of organized labor. In an unprecedented move, the AFL-CIO this month is giving its full backing for the Democratic nomination to just one of them, nine months before the Democrats hold their national nominating convention in San Francisco.

Among other early developments in the 1984 election campaign:

- The National Conservative Political Action Committee launched a $6 million campaign urging re-election of President Reagan, well before he announced his plans regarding a second term.
- The U.S. Chamber of Commerce announced that its political action committee, the National Chamber Alliance for Politics, is adopting a broad new policy for backing U.S. House and Senate candidates.

"Our selection process of candidates for congressional races is already under way," says Neil Newhouse, who is director of political affairs for the Chamber.

In Arizona, for instance, where state primaries will not even be held until next September, the alliance expects the Nov. 6, 1984, general election in the fifth congressional district to be a battle between Rep. Jim McNulty, a freshman Democrat, and Republican Jim Kolbe. Newhouse predicts that this McNulty-Kolbe showdown "could well be the closest congressional race in the nation." The race is expected to draw wide attention as a national bellwether.

McNulty and Kolbe, both former state senators, had their first head-to-head battle in 1982, when the fifth district was formed. Although Kolbe outspent McNulty by a margin of $532,588 to $343,318, McNulty won by barely 1,000 votes out of 166,000 cast.

Kolbe raised more money from political action committees than McNulty—$131,776 versus $91,401—with McNulty receiving almost 60 percent of his PAC money from labor PACs and just 4.8 percent from corporate PACs. Kolbe, a small businessman, received 46 percent of his PAC contributions from corporate PACs and no contributions from labor PACs.

Last October Kolbe was among 100 candidates—in nine Senate and 91 House races—strongly endorsed by the alliance as probusiness candidates who could win close election or re-election battles with business support. All 100 candidates in these "opportunity races," as the alliance called them, were Republicans. Although the alliance supported Democrats in 11 crucial primary races, the final list led to a number of complaints from conservative Democrats.



PHOTO: DIEGO GOLDBERG—SYGMA



PHOTO: GARY KASTER

William Greener of the Republican National Committee (left) briefs Arizona congressional candidate Jim Kolbe, who is probably headed next year for a rerun of his tight 1982 race with Jim McNulty.

In another 117 races in 1982, the alliance designated incumbent members of Congress as "friends of business" even though they were not necessarily involved in close re-election battles. Sixteen of those 117 were Democrats. Under its new policy, the alliance is certain to back more such candidates, including more Democrats, according to John Kochevar, alliance executive director and treasurer. He says the organization can be expected to endorse about 240 House and Senate candidates next year, including 30 to 35 Democrats.

"We did not pay proper deference to incumbents who supported business with their votes in the past," says Kochevar. "But the alliance, which was established in 1977, has matured enough now. We have been through three election cycles, and we are able now to give credit where credit is due with the new policy."

The alliance will endorse any congressional incumbents who have scored 70 percent or better in the Chamber's cumulative vote rating system—regardless of the closeness of their races or the philosophical differences they may have with their opponents—so long as U.S. Chamber members in the areas the candidates represent agree with the endorsement.

Previously, other factors, such as a close race, were required before the alliance would endorse the incumbent.

The alliance's other endorsements in 1984 will be in contests where there is no incumbent or where the present officeholder has less than a 70 percent U.S. Chamber rating. The alliance will continue to use the three selection criteria it used in the federal election campaign years of 1978, 1980 and 1982.

It will make an endorsement in a House or Senate race if (1) that race is expected to be close, (2) there is a clear philosophical difference between the candidates on business-related issues and (3) the broad support of business can have a favorable impact on the outcome of the election. □

—Seth Kantor

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How To Spot a Bankruptcy Swindle

Some people go into business just so they can go out of business— and take your money with them.

By David Braly

IN THE 12 MONTHS ending June 30, more than 95,000 American businesses declared bankruptcy, according to the bankruptcy division of the Administrative Office of the U.S. Courts. Most of those companies were simply unable to pay their debts. But some were in business for the sole purpose of going out of business.

In such bankruptcy operations, a company orders great amounts of merchandise, sells it at enormous discounts before paying for it and then files for bankruptcy. The bankruptcy operator thus obtains merchandise free, and when it is sold, every cent is profit.

Often bankruptcy operators work in groups, either temporarily or permanently. Some groups are tied to organized crime, but most are not. Whatever, their expertise costs businesses millions of dollars nationally. No legitimate company, however large or small, is immune, but there are precautions that business people can take.

The first: Be wary of strangers. That sounds obvious, yet it is the one precaution that many executives disregard when they see a chance to make big money on a hefty order from another company. Background checks are easy to make when a company places an order, and such an investigation can save a firm a lot of money if it reveals that the company asking for credit is run by people with shady pasts.

However, good performance on a credit check is not always indicative of a solid company. Before they strike, bankruptcy operators establish accounts with many companies and pay their bills promptly. Sometimes they pay their bills for more than a year. As their credit improves with each payment, they increase the size of their orders. This gradually sets up their creditors for big, juicy orders—for which the operators will never pay.

Something else to watch for: a big rush order from a company you are unfamiliar with. Often the purchasing agent will act as though he is worried that you are not big enough or responsible enough to handle the order. This plants the idea that you are dealing with an important outfit, potentially a major account. It also makes you eager to prove that you are a first-rate company by shipping the order to the customer fast (before you take time to check the credit rating).

A bulk purchase of a single item by a small firm is another warning sign. Retailers who plan to stay around a long time usually buy a variety of items in order to attract repeat customers. But bankruptcy operators want a few very popular items that will move fast when sold at a hefty discount. They prefer color television sets to staplers, CB radios to car radios.

Even when such bulk orders come from old customers with blue-ribbon credit ratings, that means nothing if the old customer is a company under new ownership. One of the favorite tactics of bankruptcy operators is to buy an old, respected company, then use it to rip off established suppliers. The good record of such a company provides a cover so the swindlers can operate their scam longer than would otherwise be possible.

ANOTHER TIP-OFF: If the purchaser sounds strangely reassuring that you will be paid promptly, it is often an indication that you are not going to be paid at all. Any mention of the purchaser's bank account by the purchaser is a similar reason to be wary. After all, how often does your average customer happen to mention the size, condition or location of his account?

Telephone orders that are not confirmed by mail could also indicate trou-



The first precaution for suppliers: Be wary of strangers. Check background.

DAVID BRALY, *who formerly owned and ran a book publishing firm, is a free-lance writer based in Prineville, Ore.*



If prices are abnormally low at your customer's store, that is another signal.

ble. The operators may be trying to avoid mail fraud charges that could be pressed after they file for bankruptcy if they have sent you written purchase orders without planning to pay.

If you happen to drop by a customer's store and see that prices are abnormally low, that is another signal. For example, if merchandise is being sold below the wholesale price you charged for it, the store's owner is a crook or a poor business person or has discovered some new tax angle that you definitely should inquire about.

Beware of the friendly stall. Operators who write polite letters informing you that they are unable to pay their bills on time due to unforeseen circumstances and who ask for your understanding can often extend their scam for months longer. While you are waiting patiently for your financially troubled but apparently honest customer to pay his bill (maybe he even makes a few token payments), he may be ordering more and more merchandise on credit from other suppliers.

WATCH OUT FOR high living by your customer. If the customer's company is growing fast enough to place ever larger orders, the firm should be strapped for cash. So if its owner is driving around in a new Cadillac and telling time by an Omega wristwatch, something may be wrong. (A truly professional operator seldom makes this mistake.)

Lack of participation in community activities may also be an indicator of trouble. Typically, people in retail trade join local organizations as they become successful: community betterment projects, the chamber of commerce, Kiwanis, charity fund drives, country clubs and so forth. A bankruptcy operator is not concerned about community betterment. He may not join any organizations at all. If he does so to appear respectable, he may overdo it, joining too many organizations for someone at his success level.

Be wary if you learn that a customer is transferring assets to another corporation. He may be transferring the assets but not the liabilities of Company A to Company B, planning to declare Company A bankrupt while retaining ownership (through Company B) of the goods for which the debts were originally incurred. This is perhaps the most popular ripoff with operators who plan to continue doing business in the same location for a long time. It is, fortunately, an easier form of fraud to prove than many others.

Be suspicious if a debtor you believe is an operator tells you that he has declared his company bankrupt. An operator can buy time by informing creditors that he has already declared bankruptcy when in fact he has not. Check with the nearest federal bankruptcy court.

Operators generally run their scams to the very end, selling goods at enormous discounts even while their creditors are screaming to the police and the district attorney. When the end comes, it is usually in the form of an involuntary bankruptcy pressed by creditors to force them out of business.

IF YOU SUSPECT that you are being ripped off by a bankruptcy operator, be careful about the steps you take next. The presumed operator may be nothing more than an honest man or woman with poor business ability. There are many more of them around than there are con artists. But if you have actually stumbled onto a real pro, you must handle the situation with great care. Professional bankruptcy operators know every trick, every legal loophole, every tactic and advantage that might help them. Or they hire lawyers who do.

Never threaten a debtor. Even though you are in the right, an operator may turn those threats against you, suing you for libel, slander or even extortion. If you feel a debtor is crooked, do not speak to him, speak to your lawyer.

But your best protection against operators is prevention. Being wary—and taking time to investigate before granting credit—is simple and may save you a lot of money. □

To order reprints of this article, see page 73.



Watch out for high living. Something may be wrong. Why isn't he short of cash?



How New Software Makes Managing Easier





PHOTOS: GEORGE OLSON



At a California factory where animated figures are assembled for appearances at Chuck E. Cheese's Pizza Time Theatres fast-food outlets, managers (upper left and right) keep an eye on things via computer.

Executives can see a "snapshot" of all their company's operations—and make better use of their time.

By Haig M. Bazoian

YOU KEEP HEARING that our best hope of meeting Asian and European competition is to raise productivity. There is in fact a new way to boost manufacturing output sharply without increasing costs.

One might call this development the fourth generation of computer software, and it has the makings of a small miracle.

Perhaps the only problem is one of understanding. Say "software" to most top managers, and you get yawns. "I don't understand the workings of the computer," goes the usual response, "and I don't want to."

But this software may be worth a few minutes of your attention. It could change your world.

Example: Work-in-process inventory may represent a sizable portion of your assets if you run a manufacturing plant. And most of those dollars, studies have found, are standing still.

When you look at the total manufacturing and sales cycle, you find a large percentage of parts simply sitting in a warehouse somewhere, ready for manufacture but still sitting idle, and a considerably smaller percentage actually being assembled or processed further. Once the goods are finished, there is a period before they are sold, delivered or invoiced.

A common estimate is that 80 percent of inventory is tied up in one of the three nonproductive periods—in the queue, so to speak. If you could get even half of that 80 percent moving again, you would boost productivity sharply.

The Japanese claim they have hardly any work-in-process queues. That can be true in America, too, with the new fourth generation of software.

I heard a manufacturing manager comment once that in most companies "manufacturing is in one corner, engineering is in another, marketing is on the roof and finance is over there shouting at all of them." What if they were all talking to one another? What if a decision by one was instantly analyzed for its impact on all the others? And what if that decision and its effects were instantly communicated to the others? Today for the first time it can be done.

Let us back up a minute and take a look at the basic problems. Much of the software running business in America today is at least 5 years old. Not only that, it is roughly 10 years behind current programing capabilities, and that is a light-year lag considering the explo-

HAIG M. BAZOIAN *is president of Los Angeles-based Xerox Computer Services, which provides software and computing for nearly a thousand companies in the United States and Europe.*

sive technological expansion we are now experiencing.

What we have had until now is patchwork. A score of software companies have been offering pieces: a financial system for the controller, a procurement program, a separate manufacturing system and so forth. Computers have been dedicated to individual tasks, making it decidedly difficult, if not impossible, to get them talking to one another.

With this conglomeration of data services, a company's operating departments and department heads are likely to be operating on the basis of conflicting data, old data (maybe two weeks old, or older), misclassified data and even missing data. When attempts are made to integrate one system with another, the systems often clash.

TAKE, FOR INSTANCE, what happens when a company's purchase order system is independent of its inventory management system. Under the latter system, a data word—in this case the alphanumeric description of a part—may be 30 characters long. However, when that data is sent to purchasing to correct an inventory shortage, the other department's system may accommodate only a partial description, 20 or 25 characters long. The last 5 or 10 characters may simply leak away at the end of the electronic pipeline, leaving the purchasing agent without some needed information—a part's color, for example.

Newly available software can eliminate such problems. It is software that can be accessed directly with English or English-like expressions. With it, a marketing executive might simply follow a few instructions displayed on the video monitor and ask for "a report that shows the highest level of quota attainment by salespersons in the Northeast region." Or, "How much will my sales cost jump if I open three new offices in the Midwest?"

Contrast that with earlier programing. At first we conversed with our computers using something called machine code, writing down a whole bunch of ones and zeros. Only programers could do that.

The first generation of software was displaced by assembly language in which most instructions to the machine were represented by choppy, abbreviated expressions called mnemonic codes. You could, for example, multiply if you could remember "MPY."

More recently—and now we are up to the third generation systems that are about to become obsolete—computers have been told what to do in a symbolic language like COBOL, FORTRAN or BASIC.

The new fourth generation software offers unprecedented levels of flexibility. It can run on existing machines. It

Next Month In

Nation's Business

INDUSTRIAL POLICY: Would It Sink Or Save the Economy?

Proposals for a joint government, labor and business approach to solving economic problems are being heard more frequently, and the idea will be a central theme in the 1984 elections. In this timely, penetrating report, *Nation's Business* takes a close look at whether more government involvement is really a cure for problems of U.S. industries and how such a policy would affect individual businesses.

Small Business Assesses The Economy

How do the nation's entrepreneurs view the economy? What assumptions are they making about sales, profits and inventories? What are their plans for borrowing and hiring? How do they feel about federal deficits? These and other key questions are answered in this report on the Heller-Roper survey of small business.

How SEC Changes Will Affect Stock Transactions

Everyone who buys or sells stocks will be affected by fundamental changes under way at the Securities and Exchange Commission. This article analyzes these changes and the arguments about protection of investors and the capital needs of business.

Freedom of Whose Information?

The Freedom of Information Act, originally intended to force openness in government, has become a weapon by which some businesses obtain their competitors' trade secrets. Here is what you can do to defend your business against unwanted disclosures—and to use the act to your own advantage.

Nation's Business

offers the business executive freedom to exercise ingenuity and imagination in asking questions that bear on key decisions about cash flow, net worth, output and market share.

BY PUNCHING a few buttons, our executive can access a stable of neat user tools. Some make it simple to sort and extract truly pertinent information from the mountains of raw data available. Other software routines convert numerical data into easy-reading bar charts, pie charts and graphs. The better of the so-called decision support systems focus on problem areas and areas of special interest.

The new software lets the executive plan by building complex models of a business and its environment without programer assistance. The executive can then try various assumptions and see the results.

An entire network of computers can be tied together by a single, completely integrated set of programs, each computer or terminal having nearly instantaneous access to a single data base, and all reacting in a programed, useful manner. This "single input" concept warrants some explanation. Take the pick list, an essential instrument for assembling parts for a subsequent manufacturing process. Under the new, integrated programs, the shop or warehouse employe handpicks a part from, say, work-in-process inventory and sends it to a required new location. Or it could be a completed assembly to go to the finished-goods dock.

The employe enters the part number and the destination code at a computer terminal. Here is a sampling of events that occur as a result of that single action:

- A message goes to the inventory file, reducing the current quantity of parts with that number in the work-in-process section.
- A similar message updates the allocation file, indicating classification of that particular item as either a scheduled, chargeable transaction or as a new, unplanned incident calling for special attention.
- The work-in-process file is charged for the materials value.
- The general ledger is updated to reflect the increase in finished goods and the decrease in WIP inventory.
- The transaction is recorded in the audit file.

All this takes place most times in as little as 2 seconds. Every executive in the company now has access to updated information. The inventory manager has the data to make a purchasing decision. The master scheduler has current information with which to create work orders. Each looks at the same snapshot of the company—frozen for a moment in time.

Virtually every part of the manufacturing company is now linked together. If management decides to make 10,000 extra widgets in the next quarter, the system may instantly reply that the capacity is not available, giving specifics on machines and assembly labor. Or it may point out that last week's rush order may have to be displaced or that procurement will have to come up with 6,300 extra widget axles.

The operating executive can make major business decisions on data that are current, in English and reduced to essentials. Have you seen some of those old-fashioned computer reports? Some are thicker and heavier than a big city phone book, and reading them was, of course, much more difficult.

ANOTHER THING: The time has passed for deep concern about ways to boost the output of a $20,000 machine operator by 5 percent. With the manufacturing software now becoming available, the flow of materials onto, through and out from the factory floor can be so accurately programed and monitored that top-level manufacturing executives can turn their attention to matters of far greater impact.

"I used to spend 85 to 90 percent of my time putting out fires," one operations vice president, told me. "Now advance warning systems built into our manufacturing software—flags on minimum inventory levels, for example—let me concentrate on long-range planning, improvements to our tooling and other means by which we can work smarter instead of harder."

Imagine then the immediate financial benefit of upping by even 20 or 25 percent the effectiveness of executives earning $50,000 to $100,000. This fourth generation software not only eliminates the fire drills by smoothing the production flow, it also puts that tremendous amount of computing power directly into the hands of key executives, instead of data processing specialists. This, of course, reduces significantly the possibility of interpretation or translation errors. And it lets the data processing specialists do the highly technical work they do best.

How about the payoff to the customer? For one thing, with more efficient manufacturing he gets a better price. He also gets faster deliveries. And he can change his mind with fewer penalties, because computerized suppliers are far more flexible. □

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Survival Kit for Business

When Should You Sell a Stock?

The pros' rules can help you make that hard decision.

By Ray Brady

IT WAS AT THE HEIGHT of the bull market last spring, and the executive was worried. He had invested heavily in all the "right" stocks, like high technology and housing, and his gains had been stratospheric. But now, as he sat looking at his portfolio, he could not decide what to do.

Should he sell his stocks and take his profits? Or would that be kicking money away? Were those stocks going still higher?

When to sell a stock is a question that bedevils not only executives but also many professional Wall Street money managers. In fact, it may be the toughest part of formulating a sound, money-making investment policy.

There are all those stories, of course, about the investor who put money into one of the auto stocks in the early years of this century and enriched his family for decades to come, simply by hanging on to his original investment.

But there are also many stories about modern investors who bought a hot issue, watched it soar in value and then saw it come crashing down to earth again.

Bill LeFevre, veteran stock market analyst for the Wall Street firm of Purcell, Graham & Company, believes that an investor should make the basic decision about when to sell a stock when he first buys it.

If, LeFevre says, you see a company's stock selling for $25 a share, and you feel the company's outlook is brightening, you should set a target price for the stock. You might say, "This stock could go to $45 a share." If it does reach that target, LeFevre says, you should sell at least some of the stock.

One professional money manager, who prefers to remain anonymous, says that he follows these rules:

- If he buys a stock and it quickly rises 50 percent or so, he feels that he would be pressing his luck to try for more. Unless he sees something really extraordinary in the company's future, he sells the stock and looks around for another winner.
- If he has held the stock for a year and qualified for the low capital gains tax rate (a 20 percent maximum, as opposed to 50 percent for a short-term gain) and the stock has had a strong rise, he examines its prospects critically. Almost invariably, he winds up selling the stock. Reason: Few issues rise sharply in one year and then make a similar gain in the following year.

But what do you do if you do not have that big gain but have instead a loss? Even the professionals admit that is when the selling decision is really tough. The late Gerald Loeb was one of the true wizards of Wall Street, and he always believed that accepting a loss was the single most important way to keep your capital intact.

But it is not easy. As Bill LeFevre points out, when a stock is down sharply, most investors resist taking a loss; instead they go on, hoping against hope (and reason) that the stock will regain its value.

> It may be the toughest part of formulating a sound, money-making investment policy.

Many professional investors, however, follow an inflexible rule that if a stock drops 10 percent, it is time to sell. That rule requires a lot of self-discipline, but, as Gerald Loeb believed, it protects the investor against a really heavy loss.

In today's volatile stock market, LeFevre notes, it may not always be possible to follow the 10 percent rule. In some cases, he says, the investor should become wary when a stock drops 10 percent, and the stock should definitely be dumped when the loss nears 20 percent. As he puts it: "The first rule in investing should always be: Let your profits run, but cut your losses."

It is also a good idea—once you have that capital gain—to check the price-earnings ratio of your stock (if a stock sells for $20 a share, and its per-share earnings are $2, the ratio is 10). Then calculate the price-earnings ratios of other stocks in the same industry.

If your stock has a higher price-earnings ratio than comparable stocks, try to learn whether there is anything in the company's prospects to merit that higher price. If there is not, the stock may well have gotten ahead of itself, and it may be time to sell it.

THAT IS ESPECIALLY TRUE if the stock's price-earnings ratio is up because of good news that you anticipated when you bought it—say, a big contract that has come through for a manufacturer or a fare rise that will benefit an airline. Whatever the reason the stock and its price-earnings ratio have gone up, this is a time to remember the Wall Street axiom "Sell on the good news."

Most times, once the good news is out, the stock is going to rest for a while, and it may even back down in price. (The same thing can be true of the whole stock market; it may drop on seemingly bright economic news.) This phenomenon has puzzled many neophytes. The explanation, of course, is that professional investors anticipated the news, bought early before the stock started running up and now are selling.

It can also be worthwhile to watch the course of interest rates, especially if the executive has put his money into what are called interest-sensitive stocks, such as housing or savings and loan issues. Very often, a rise in interest rates not only will slow up the whole stock market, it will absolutely clobber certain issues.

One final point: There are no truly hard-and-fast rules to investing, because there are always exceptions—stocks that break the rules and go up when all reason says they should not—but these are guidelines that can help build a portfolio.

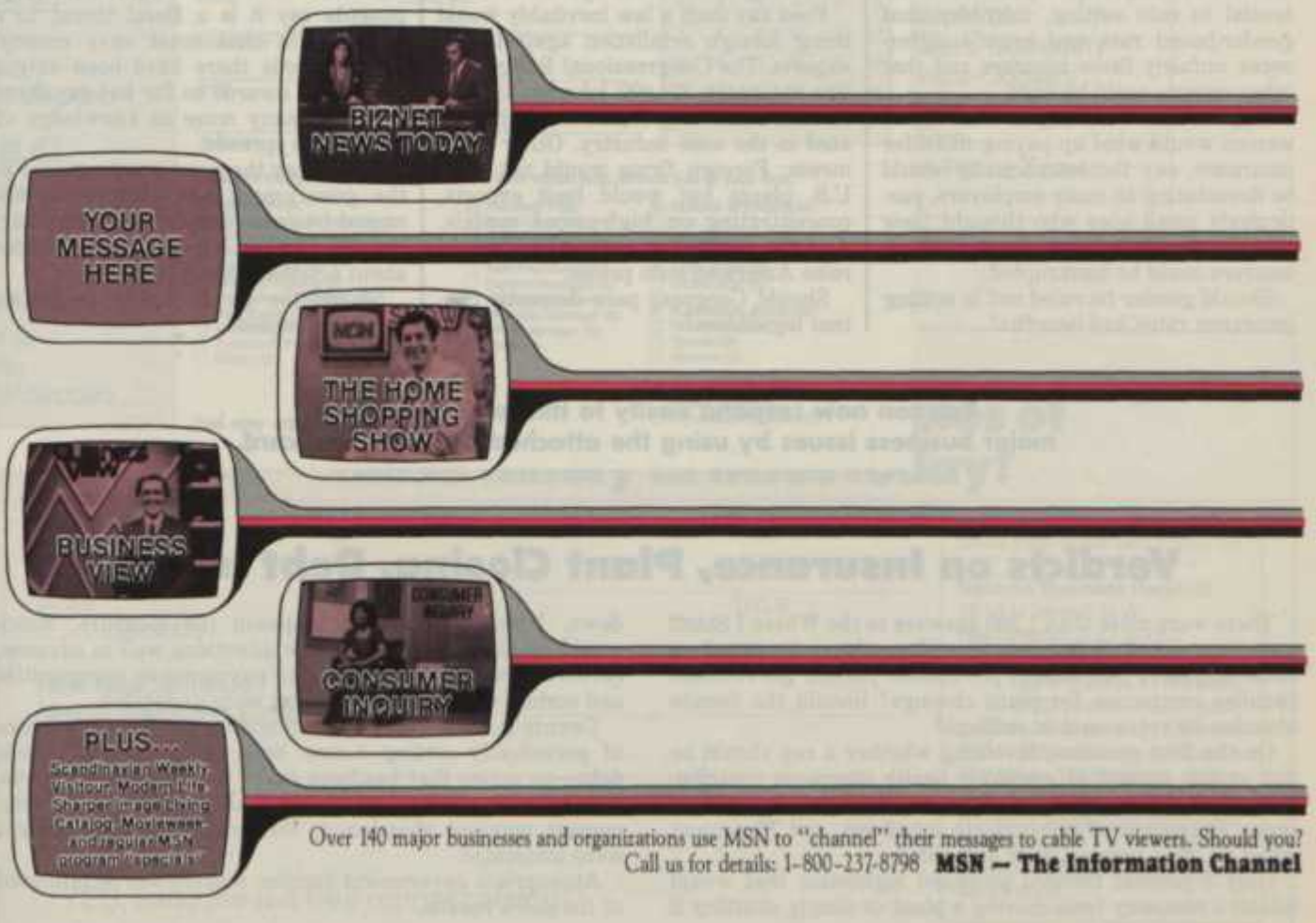
A postscript: That executive who was worried about his portfolio sold the stocks. In the weeks following his decision the market plummeted, and the value of many of the housing and high-tech stocks he had owned was cut in half. □

RAY BRADY *is the business correspondent for CBS News.*

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Where I Stand

1. End Gender Gaps In Insurance?

A Supreme Court ruling against pension plans that, because of women's greater life expectancy, pay higher monthly benefits to men has given new impetus to a drive for unisex insurance legislation.

The 5 to 4 ruling, in a state government case but applicable to all employers, affects only pension benefits based on contributions made after Aug. 1, 1983.

Not so the legislation. Its impact would be retroactive. And it would affect life, health, auto and other insurance, as well as pensions.

Its proponents say the issue is sex discrimination. Despite insurance industry insistence that group accident, medical or longevity experience is essential to rate setting, they say that gender-based rate and benefit differences unfairly favor insurers and that other criteria could be used.

Opponents, who argue that most women would wind up paying more for insurance, say the retroactivity would be devastating to many employers, particularly small ones who thought their pension liabilities were funded. Some insurers could be bankrupted.

Should gender be ruled out in setting insurance rates and benefits?

2. Would This Really Protect U.S. Jobs?

The United Auto Workers Union has a drive on for passage in the 98th Congress of a bill that would sharply restrict use of foreign parts and labor in cars sold here. Up to 90 percent of an auto's content—depending on the maker's U.S. sales volume—would have to be American.

Supporters of this domestic content legislation, which passed the House but not the Senate in the last Congress, say it would create jobs either by inhibiting exports to this country or by inducing foreign manufacturers to open U.S. plants. (Based on 1982 sales, leading foreign firms would face U.S. percentage requirements ranging from 21 for Volkswagen to 68 for Toyota.)

Foes say such a law inevitably would bring foreign retaliation against U.S. exports. The Congressional Budget Office estimates 104,000 jobs would thus be lost, while only 38,000 would be created in the auto industry. Other arguments: Foreign firms would not open U.S. plants but would limit exports, concentrating on high-priced models. And the curbing of competition would raise American auto prices.

Should Congress pass domestic content legislation?

3. Save Law On Lawsuit Cost?

When the National Labor Relations Board accepted a union's claim that a printing firm had illegally fired an employe for union activity, the company went to a federal appeals court.

The firing had nothing to do with union activity, the firm said. The court agreed. It overturned an NLRB unfair labor practices ruling.

It also awarded the company $16,940 to pay legal fees, under a law permitting small firms to collect if they contest federal agency legal or administrative action against them that is held to be unreasonable.

The law, the Equal Access to Justice Act, took effect in 1981 and will expire next October unless it is extended. Opponents say it is a fiscal threat to a government that must save money. They concede there have been only a handful of awards so far but say there could be many more as knowledge of the statute spreads.

Others say the point is not expense to the government but expense to harassed business people. And, they say, the law makes agencies think twice about actions against business.

Should the Equal Access to Justice Act be extended?

You can now respond easily to this monthly poll on major business issues by using the attached postage-paid card.

Verdicts on Insurance, Plant Closing, Debt Issues

There were more than 1,800 answers to the Where I Stand questions asked in August: Should employes be taxed on some employer-paid health premiums? Should government penalize companies for plant closings? Should the Senate abandon its votes on debt ceilings?

On the first question, involving whether a cap should be put on the amount of employer health insurance contributions that can be excluded from an employe's taxable income, 23 percent of respondents voted yes, and 72 percent voted no. Five percent were undecided.

Only 3 percent favored proposed legislation that would inhibit a company from moving a plant or simply shutting it down. Ninety-five percent opposed the measure, which would require a firm to disclose intentions well in advance, reveal operations data and make payments to communities and certain workers. Two percent were undecided.

Twenty-three percent favored ending the Senate practice of periodically setting a new limit on the overall public debt—an action that has been called a time-consuming charade because the limit inevitably is allowed to rise. Seventy percent opposed abandoning the practice, and 7 percent were undecided.

Appropriate government decision makers will be informed of the poll's results.

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STRATEGIES FOR SUCCESS

Moving as Fast As A Wheelchair Racer

Although Joseph A. and Dorothy Furst Bahnatka have sewn up just a small pocket in the burgeoning home health care industry, the business they started part time seven years ago now far exceeds the expectations they had for it.

Providing hospital equipment to patients who are convalescing at home is the main thrust of Med-Care Convalescent Supply Company, based in Rhinebeck, N.Y. The Bahnatkas' firm has grown to five stores in New York and Connecticut, and this year they expect sales to be $2.5 million—50 percent more than last year.

"We never dreamed the business would be as large as it is," says Dot. In the mid-1970s Joe taught social studies at a high school, and Dot, a former secretary, was at home looking after their two young daughters. They knew they wanted to go into business together. The question was: what business?

They heard about a convalescent supply firm in another state and were intrigued. They spent a year researching the field before they got into it—with financial backing from their families—in 1976. They also decided to specialize in an area known in the health care field as "DME," for durable medical equipment.

At first, Dot recalls, it was a "convenient" business, one she could get started while staying home with the children. Equipment like hospital beds, wheelchairs and walkers was stored in their garage, and Joe made deliveries in the afternoon and evening.

But the business outpaced this arrangement, and before long, Joe says, teaching became "an extravagance we didn't need." He resigned his job, and he and Dot plunged full time into Med-Care, moving the equipment into a restored 19th century blacksmith shop.

Now the firm's headquarters fills three buildings, and the Bahnatkas are hoping to expand to seven retail locations. Their goal: to serve the Hudson Valley from north of New York City to the Adirondacks.

Inspired by active wheelchair-bound people—some of them young athletes—the couple started a subsidiary called Mobility Unlimited two years ago. They persuaded Marty Ball, a nationally ranked wheelchair athlete, to join Mobility as director of marketing.

The equipment Mobility offers—easy-to-maneuver lightweight wheelchairs as well as wheelchairs designed for racing, basketball and other sports—enables amputees, paraplegics and other disabled people "to participate in a fuller life," Joe says. Some health insurance companies still resist paying for such equipment; a lightweight wheelchair can cost $1,200 compared with $350 for a traditional wheelchair.

But acceptance is growing, Joe says, because third-party payers are beginning to see that these functional chairs get patients back to work and into the mainstream of life more quickly.

"We do kind of move with the times," acknowledges Joe, who recalls that Med-Care was originally oriented toward the elderly.

Joe serves as president of Med-Care; Dot is president of Mobility. Joe is also vice president of the National Association of Medical Equipment Suppliers and will succeed to the presidency next April.



PHOTO: ROBERT KALMAN

Dorothy and Joseph Bahnatka say they did not expect their medical equipment firm to grow so quickly.

Although they sell some of their equipment, most of the Bahnatkas' business is rental (a typical wheelchair rents for $22 to $25 a month). Services like theirs hold down the cost of health care, a point not lost on Medicare and insurance companies. "If you stay in a hospital, the average cost is almost $300 per day," says Joe. "If you convalesce at home, the average cost for equipment is $77 per year."

Not Just Another Pretty Hairdo

Maybe Raymond E. Holland is a natural. He seemed to do a lot of things right, long before he understood why they succeeded. And when he failed, he learned quickly from his mistakes and did things right the next time.

As a result, Holland, who at age 22 dreamed of earning $100 a week as a hairdresser, is now owner and president of a firm expected to bring in $18 million in sales this year. His Holiday Hair Fashions, headquartered in Allentown, Pa., owns 150 beauty salons in eight states.

He has had very little formal education, Ray Holland says, "but I have a lot of common sense and a need to know how things work."

That need led him out of rural Duplin County, in eastern North Carolina, where he grew up. He and a friend left their wives behind temporarily in 1957 to seek better employment in the North. The friend had a sister in Allentown, and they decided to visit her. Holland has been in Allentown ever since.

When he was in high school, an aunt tried to persuade him to go to beauty school. But "guys didn't do that," Holland remembers. During a stint of unemployment in Allentown, however, beauty school looked good, and Holland enrolled.

Out of school, he tried to persuade a beauty shop owner he worked for to open a second store in a suburb. Holland had the idea all mapped out, but the management dragged its feet. So, with his life savings of $1,400, Holland opened the shop himself on Labor Day, 1963. It was an immediate success. Eighteen months later, he opened a second store. "It was a dismal failure," Holland recalls.

He had learned the hard way that being an in-store manager was different from being an absentee manager. An absentee owner, he found, had to

The Bahnatkas get their customers through referrals from hospitals, physicians and nursing groups. And for them newspaper advertising has been especially effective.

One key to their success is 24-hour service. When something goes wrong with the oxygen equipment, Joe points out, the patient cannot wait for a repairman to come the next day.

Med-Care's 44 employes include nurses, respiratory therapists and equipment technicians, in addition to salespeople and administrative personnel. Staff education is emphasized vigorously. Technicians are taught first aid and oxygen therapy, and they visit manufacturers as far away as California to learn how to operate and repair the equipment.

Even staff members responsible for answering the phone may learn the proper way to fit someone for a wheelchair.

"Most of our patients don't come to our locations," Dot explains. "Most of the work is done over the telephone. We want the women who answer the telephone to convince the customers that we are well-versed in the equipment."

The employes' attitude is vital, too. They often find themselves talking to old people who are sick and unhappy. "You have to see what their needs are and try to be helpful," says Dot.

They Are Partners 24 Hours a Day

This is Maureen G. Law's year. In April the Small Business Administration named her Illinois Small Business Person of the Year. That same month she was inducted into the Illinois Small Business Hall of Fame. And in September the Chicago chapter of the National Association of Women Business Owners honored her for her entrepreneurship.

Her husband, Ramon "Gene" Law, does not seem to mind a bit that Maureen is getting all the limelight—even though their Palos Hills high-technology firm bears only his name (R.E. Law Instrument Inc.), even though he and Maureen founded the firm together 16 years ago and even though they have worked side by side ever since.

Maureen, who says she is puzzled that they did not get the SBA award as a team, speculates that her greater involvement in legislative and community activities led to her recognition. The Illinois State Chamber of Commerce, which nominated her, concurs. She is on the executive committee of its Small Business Council and, says the chamber's small business manager, Robert M. Beckwith, is typical of the growing number of women "coming to the forefront of business leadership." Besides, he adds, "the whole visibility of the company comes through this woman." Gene enjoys a behind-the-scenes role, Beckwith says, and Maureen "is the fireball."

Gene offers an additional explanation: When they started the company (with $500 and a toolbox), it was a partnership. Some years later Maureen inherited money from her father, which she put into the company. She is now majority stockholder and president; Gene is executive vice president.

When Maureen Binelli and Gene Law were colleagues at Argonne National Laboratory in the 1960s (she was a nuclear research chemist and he was an instrument specialist for reactor systems), they saw a need for a repair service for all types of industrial temperature controls.

What began as Law Repair was a moonlight operation for about a year. Then Maureen and Gene went into it full time and expanded in scope to include supply, service and manufacture of such products as thermocouples, sensing probes, control panel systems, and wire and cable.

And what began as a friendship and business partnership evolved into a marriage. "We are together 24 hours a day," says Gene. "We work together, play together, eat together, sleep to-

plan better because he would not be on the spot to make decisions.

In fact, Holland became very good at learning. He had seen that a no-appointment-necessary policy worked well for some franchised beauty stores, and he added it to his open-seven-days-a-week policy. His stores now serve 35,000 customers a week without appointments.

He looked at department store pricing and learned that $2.95 sounded better to a customer than $3, even in the hairdressing business. He learned that low prices increased the number of his customers. He learned that neighborhood stores could not produce enough volume to support overhead and good supervision, so he located his stores in strip shopping centers and malls.

And along the way he learned about management, personnel, promotion, real estate and finance.

"We rose to the occasion," Holland says, enjoying the understatement.

Holiday Hair Fashions has 1,100 employes, and most top managers started as hairdressers. And Holland predicts achievement of a goal set in 1979 to have 200 stores with $3,000 weekly income each by 1985.

"Life has been so generous to me," he says, mentioning his 19-year-old daughter, Lesley, and "good friends and good income." As a way of giving back, he serves as president of the Allentown Economic Development Corporation and United Cerebral Palsy of Lehigh Valley.

Community service and the rigors of business have not kept him from pursuing a lifelong passion for automobiles. He used to collect show cars, but he turned to art objects, toys and memorabilia once he realized that he loved autos more for their esthetic appeal than their mechanics.

The pieces in Holland's collection, many of them originals, number in the thousands, and the collection is recognized as one of the world's finest. Its worth? "Easily a million dollars," Holland answers. "But I don't buy things because of price. I buy them because I like them."



PHOTO: DAVID BALDEZ

Once Raymond E. Holland turned down beauty school. Today he owns 150 beauty salons in eight states.



PHOTO: DAVID WILCKE

Maureen and Gene Law: Friendship and partnership evolved into marriage, and a moonlight venture became a thriving firm.

gether. You have to like each other quite a bit to live like that." The Laws, who say they have 500 accounts "from A to Z" (Abbott Laboratories to Zenith Radio Corporation), expect their volume to total $2 million this year.

The firm has nearly 30 employes, and the Laws look to key staff for ideas and criticism on any area of business and technology. "When we have a staff meeting, it is a lulu," says Maureen.

One evening a week the Laws bring in experts from local colleges and different companies to keep the firm's technology staff up to date. "Ability and courage to change our direction with changing technology are crucial to our success," Maureen explains. "We have never been stagnant."

Despite their successes, Maureen's temper rises when she discusses the problems they have experienced in running a small business.

For one thing, she says, large firms give their best business to other large firms and give to small companies only what the large ones don't want to handle. Set-asides for small business, she charges, are "mostly a lot of talk."

Government interference is another sore spot. Not long ago, a group of 34 Japanese business owners toured the Laws' plant, and the couple learned that all 34 were in business with the help of their government. "We are in business in spite of our government," says Gene. "We have had nothing but hindrance from government."

Let Des Moines Take the Credit

"I am not sure I could have succeeded anywhere else but in Des Moines," says Dale V. Nelson, the founder and president of Building Maintenance Service, Inc.

As a sales representative for a floor-care products company in the 1950s, Nelson saw that most commercial cleaning services were mom-and-pop janitorial operations. He thought he could bring a more professional approach to such a service. BMS* (the asterisk is registered and stands for "the sign of quality"), the firm he started in 1959, cleans offices, warehouses, shopping malls and other commercial buildings. It has grown to nearly 500 employes and sales of more than $4 million annually.

Early on, Nelson says, he made some hiring decisions that were bad for his business. "Because I lived in Des Moines, where there are such great people, I could make those mistakes and recover," he says. In another environment, he thinks, he might not have had a second chance.

Clearly, Nelson likes to spread the credit around. He credits someone he calls simply "a very smart gentleman" with teaching him what has proved to be a good business philosophy: "Always approach the other guy's problem as being just a little more important than your own." That goes for your employes as well as your customers, adds Nelson, a Wisconsin dairy farmer's son who came to Iowa on his first sales job, for the L.G. Balfour Company, in 1949.

He credits Clifford Norris, a partner he took on after a shaky first six months, as being "instrumental in the growth of our company." (Norris left the firm in the early 1970s but returned in 1980 as director of research and development.)

He credits his customers with restraining him when he becomes too pushy. "I try to control things I shouldn't try to control," he confesses.

And he credits others with knowing, long before he did, the importance of bringing the small business community together so that it can make itself heard as a unified voice in the halls of Congress or in the White House. It was a need he discovered in the late 1970s when he served as chairman of a Small Business Administration task force on government competition with small business.

He cites statistics: Small business was responsible for 7 million of the 8 million new jobs created between 1970 and 1980, and it represents 43 percent of the gross national product.

Says Nelson: "I want to make people aware of the small business community that is out there." Past president of the Mid-Continent Small Business United, Nelson is now on the U.S. Chamber Council of Small Business and the Council on Procurement Policy.

For Nelson, national service is an extension of a principle he put into practice back in Des Moines a long time ago. He follows the lead of Iowans, who, he says, work as hard for their communities as they do for their own businesses. He requires his top managers to give five to seven hours every week to the community. That includes his son, Mark, 30, a University of Iowa graduate who joined BMS* in 1975 and has worked his way up to vice president and director of operations.

"As soon as you have any degree of success," Nelson says, "you have to start putting back into the community what you have taken out of it." □

Building Maintenance Service's Dale Nelson makes it his business to keep other businesses clean.



PHOTO: DAVID WILCKE

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"Oh, My Aching Back!"

Here are some ways to ease—or prevent—low back pain.

By Arthur H. White, M.D., and Patricia Kunse

IS IT DIFFICULT for you to straighten up after sitting all morning at your desk? Have you ever felt pain in your back as you bent over to pick up a shoe or pull a weed? How about an unpleasant sensation as you reached up to serve a tennis ball?

If these feelings are unfamiliar, you are lucky. More than 80 percent of the world's people will experience low back pain sometime in their lives. And according to some estimates, 50 of every 1,000 American workers will lose an average of 14 workdays this year from job-related back injuries.

Those statistics sound pessimistic, but the good news is that in most cases low back pain and back injuries are preventable.

If you have already experienced problems, you may be able to control the pain, but you will have to change some common habits. Physicians often refer back pain sufferers to "back" schools, where they participate in supervised programs of exercise and instruction in proper body mechanics.

How you lift, bend, push, pull or reach every day has an impact on your back. Unfortunately, the average person pays little attention to which positions put the most stress on the back.

Many structures in the low back—discs, joints, nerves and muscles—can cause pain. Often it does not really matter where the pain originates, as long as we know which movements cause it. Bending and twisting and reaching too far can cause problems if done repeatedly. Sitting for hours bent over a desk can be dangerous if you fail to change position many times throughout the day.

There is another key to preventing low back pain: fitness. Staying physically fit makes the performance of activities like lifting, pulling and pushing easier and more efficient.

Back pain hits most sufferers when they are 35 to 50 years old, the period when people are inclined to give up regular exercise because of the demands placed on their time by careers and families. (We often excel at the expense of our backs!)

Regular exercise develops strength in the abdominal muscles and the quadriceps muscles (front of thigh), which helps prevent low back pain. The abdominal muscles help support the spine, and the quadriceps muscles allow you to reach down to the floor by bending your knees instead of bending forward at the waist.

What can you do to keep these muscles in shape without running marathons or swimming miles every day? There are some simple exercises that you can do at home. They take 5 minutes to learn and not much longer to do on a daily basis. (We find that the more exercises a person is given, the less consistent he or she is in performing them. To make it easier to do them consistently, we give you only three.)

The first two exercises are for the abdomen; the last one is commonly used by skiers to strengthen their legs.

Pelvic tilt. Lie on your back on the floor, with your knees bent, your feet on the floor and your arms by your side. By tightening your stomach and buttock muscles, flatten the small of your back onto the floor. (You probably can slide your hand under your back at the beginning of the movement, but you should not be able to at the finish.) Repeat 10 times; gradually build up to 25 repetitions a day.

Partial sit-up. Lie on your back with knees bent and feet on the floor. Raise your head and shoulders up off the floor. (You may lock your hands behind your head or reach for your knees as you raise up.) Repeat 10 times—or do it just once, holding the raised-up position for as long as you can. Try to progress to holding the position for 4 minutes.

Wall slide. Lean against the wall with your feet about 12 inches from the wall and as far apart. You may cross your arms over your chest. Push your low back into the wall and, once in that position, slide down the wall until your thighs are parallel to the floor. Try to hold this position for 4 minutes also.

Another hint about exercise: People have been doing toe touches, twisting exercises and full sit-ups for years in an effort to strengthen their backs. But these exercises contribute to degenerative changes in the spine and can cause low back pain if done excessively. People who have experienced low back pain should not do these exercises at all.

Remember one more thing: Keep your back straight for all your activities at home and at work. □

ARTHUR H. WHITE, M.D., *is medical director of St. Mary's Spine Center in San Francisco and founder of the California Back School.* PATRICIA KUNSE, *a registered physical therapist, is senior physical therapist at St. Mary's Spine Center.*



ILLUSTRATIONS: NANCY URBANSKI—EUCALYPTUS TREE







CONGRESSIONAL ALERT

Issues That Could Affect *Your* Business

. . . and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1984 Budget/Taxes	Interest rates will be guided by Capitol Hill budget actions as Congress decides how much to borrow to cover excessive spending.	Members of the House and Senate: Don't increase government spending; don't raise taxes this year; vote against taxing fringe benefits.
Appropriation Bills	Congressional impact on the federal deficit, interest rates and inflation will be finalized on completion of 13 regular appropriation bills.	Members of the House and Senate: Don't jeopardize the economic recovery with wasteful, inflated appropriation bills; cut spending.
International Monetary Fund	IMF, a cost-effective mechanism for maintaining international financial stability, helps foreign nations buy American goods and services.	Members of the House and Senate: Support full funding for IMF as a way of promoting employment at home and sales abroad.
Natural Gas Deregulation	Current restrictions on gas use and prices are unfair to business users; full decontrol would provide the lowest prices and plentiful supplies.	Senators, House Energy and Commerce Committee: Support efforts to deregulate all natural gas prices and supplies by a fixed date.
Hazardous Waste	Small business would face a much heavier paper work burden and higher production costs; the environment would realize few benefits.	Senators: Support consistent reporting and regulating requirements for small-quantity generators of hazardous waste at 100 kg per month.
Immigration	A great increase in paper work for small firms will result if Congress adopts mandatory reporting.	Members of the House: It is vital that voluntary paper work provisions be retained in the bill.
Export Administration Act	An export-enhanced economic recovery will reduce foreign trade and budget deficits, increase employment and improve America's trading reputation.	Members of the House and Senate: Reduce unrealistic export controls on items available to other nations from non-U.S. sources.
Jobless Pay Extension	Employers' payroll taxes will rise if Congress expands the extended unemployment compensation program and reduces incentives for the jobless to accept employment.	Members of the House and Senate: Oppose allowing claimants to draw extra weeks of extended benefits, federal supplemental compensation or trade adjustment assistance.

You Can Share In Saving the Recovery

The most pressing economic question before the nation today is how to keep the recovery going without triggering a new round of unacceptably high inflation.

Achieving both goals will require a continuation of the consumer confidence—and buying—that has led the country out of recession. Consumer spending has depleted inventories to the point where industrial production must be accelerated to meet demand for many kinds of goods. Much more government restraint in spending is also needed. So is a reasonable money-supply policy that is neither too expansionary nor too restrictive.

One thing the economy certainly does not need is higher taxes on business. There would be no surer way to choke off the recovery than to force American enterprises, large and small, to divert to Washington funds that they are now using to rebuild their inventories or to supply goods and services other businesses need for their own expansion.

Unfortunately, however, a formidable group in Congress still looks to higher taxes, rather than lower spending, as a solution to the problem of huge deficits. Business has long recognized the extent to which ever-higher taxes undermine the economic system and prevent the growth needed to underwrite the very social programs the high-tax advocates also support.

An article on page 22 in this issue takes a hard look at the higher-tax case. Business people should read it carefully, then let their own members of Congress know how they feel on this crucial issue.

Congress Should Clean Up Its Act

One of the more popular tactics on Capitol Hill is the use of the words "reform," "equity," "responsible" and "clean" in the titles of legislation.

Thus, the 1982 measure that imposed record tax increases and wiped out much of the relief voted only a year earlier carried the title "Tax Equity and Fiscal Responsibility Act," which lives on in Washington jargon as TEFRA.

A current use of the tactic is seen in the so-called Clean Campaign Act of 1983. The very words seem to command support for the measure. But take a closer look. Major provisions of the legislation would severely restrict participation by political action committees in congressional elections and would require all taxpayers to subsidize the campaigns of all general-election candidates for Congress.

PACs have been an important vehicle by which business generally has become involved in the political process after too many years of sitting on the sidelines and suffering the consequences of inaction.

Further restrictions would inhibit business participation in elections whose outcomes will have important consequences for business.

There is one positive aspect to the legislation—it is evidence that Congress needs its own truth-in-labeling regulations.

A Time for Change In the Farm Belt

Federal programs to stabilize farmers' incomes will cost around $22 billion this fiscal year, almost double last year's outlays.

Obviously, the federal budget cannot long sustain that kind of spending pressure. Much of the sharp increase stems from price-support programs that stimulated production of commodities that growers were unable to sell.

The Reagan administration set out to ease the problem through its Payment-in-Kind program, but this crops-for-cash approach to discourage planting is not meant to be a substitute for a sound, long-term agriculture policy. (See report on page 46).

However, drought combined with the PIK program has sharply reduced surpluses in feed grains, although not in wheat. Market forces will have a better chance to take over.

The federal government should take advantage of the opportunity—despite the approaching election season—and resist political pressures to return to the status quo. Instead it should press toward a market system.

There will be an early opportunity to move in this direction when Congress looks at the status of a support system in which the government gives the farmer the difference between market price and a so-called target price. Target prices should be frozen, not allowed to rise. □

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